ESG Integration

How we integrate ESG considerations into investmentdecision making across all funds

Our Approach

Alphinity believes that the integration of environmental, social and corporate governance (ESG) considerations into our investment management processes and ownership practices is essential, as these factors can have a significant impact on financial performance. Sustainability is imperative for all companies, and we as fund managers have an active role to play in ensuring that the companies in which we invest are taking responsibility for ESG issues, and that we need to actively monitor the compliance of investee companies to ensure they live up to best practice in this area. This reflects our obligation to our clients to both maximise returns and manage risk. By improving our understanding of individual companies' management of ESG issues, which can present significant risks as well as potential opportunities, we aim to achieve our objective of generating above average, long term sustainable returns.

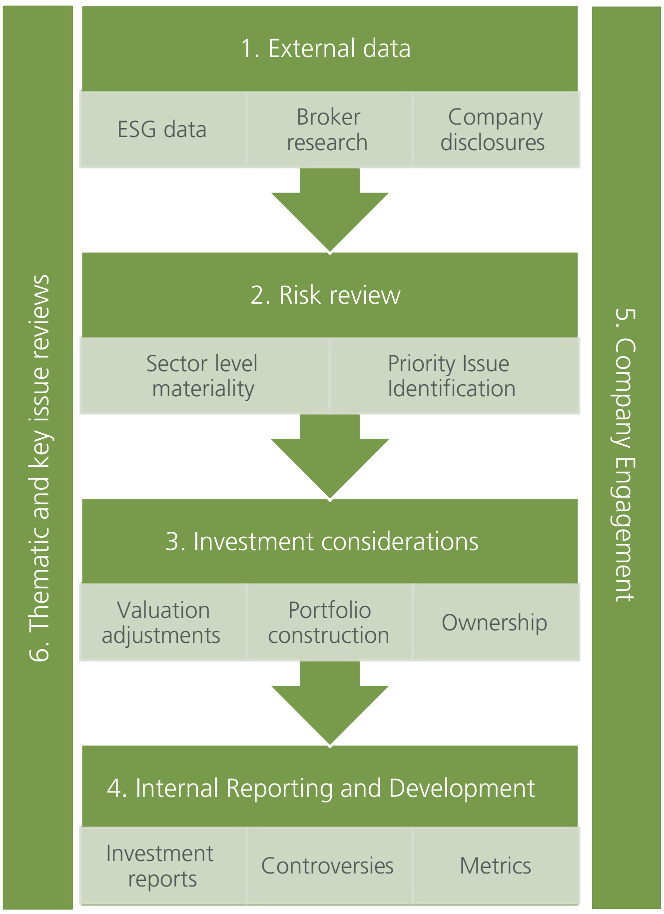
We believe the formal incorporation of ESG factors into our overall investment analysis is essential, and actively seek to reflect this when evaluating a company's worth. As part of our commitment to incorporate ESG matters into our investment process, Alphinity is a signatory to the United Nationsbacked Principles for Responsible Investment (PRI).

The Sustainable Advisory Committee supports the identification and management of ESG related issues. They assist us to identify areas of engagement and address grey areas.

We take our ownership responsibilities seriously as we believe the right to vote as proxy for our investors is a valuable asset. We intend, wherever possible and practical, to vote on every resolution put to shareholders. Our primary objective when voting will be maximising the value of our unit holders' investments.

See our ESG Policy and Our Approach to Responsible Investment for further context.

Our Process



ESG integration is an iterative process and is informed by a range of aspects including data and company disclosure, changes in the market, changes in societal expectations and policy conditions. We have depicted our process as linear but in reality, it is dynamic and constantly under review.

1. External Data

We use a range of external ESG data to inform our view on material risks on an individual company basis. Which data we use depends on the issue being assessed, but generally, we access the following:

- **External ESG research database** with comprehensive ESG and controversy reports on publicly traded companies.
- **Broker research and tools.** Especially for emerging issues, controversies and thematic considerations
- **Company disclosures** including Annual/Sustainability eports, investor updates, CDP/TCFD disclosures etc
- **Other Reports and insights** from news outlets, industry bodies (eg IGCC) and investor collaboration engagements (eg 40:40 vision)

We treat data as a starting point for further review and consideration. We recognise there are limitations in the quality, timeliness, and scope of ESG data so are always looking for new and improved ways of gaining insights.

2. Risk review

Risk Analysis

We assess ESG risk for all companies held within our portfolio's. This is owned by the relevant analyst and supported by the ESG and Sustainability Manager. Inputs from the Sustainability Committee also inform our view.

Priority Issue Identification

As a starting point, we review relevant threats and opportunities based on an understanding of relevant sector sector level ESG aspects (materiality illustration below). We then consider the company's exposure level, their management response, metrics and performance (incl emissions, gender, safety etc), potential impact on earnings, and timing of the impact, to inform a short list of priority issues that require further action/analysis.

Once these are identified, we confirm engagement actions and document any considerations for the investment case (where relevant).

3. Investment Considerations

The means of integrating ESG issues into our investment process will vary depending on the company being assessed and the materiality of the ESG issue that's identified. Ideally when an issue is quantifiable, we will incorporate into our financial modelling. This may result in a range of outcomes, for example, outright avoidance of a company with poor ESG performance, or a premium being accorded to a purely financial valuation for a company with very positive ESG performance.

For example, when assessing utilities, we consider the impacts of climate change and where relevant apply a carbon tax for large emitters, adjust for lower long term National Energy Market (NEM) prices, and change cash flow projections based on possible changes to long term demand and supply.

4. Internal Reporting and Development

We integrate ESG aspects into other portfolio level internal reports. For example:

- Proprietary ESG report that presents ESG data for our portfolios against the benchmark including, the average ESG ratings and scores, carbon footprint, top 10 contributors
- Monthly and quarterly active controversies reports using third party data, news feeds, and other alerts
- Quarterly internal ESG reports
- Portfolio summaries

We also complete issues-based reporting where relevant. For example, as part of our commitment to the 40:40 vision, we analysed gender diversity data for companies across our portfolios and identified a list of companies where engagement was required.

We regularly participate in expert/broker calls on ESG issues and from time to time will also run internal sessions on relevant topics like modern slavery.

Material Issues by Sector

Sector	Environmental						Social						Governance			
	Carbon	Waste	Pollution	Deforestation	Animal welfare	Resource use	Community / Customer views	Gender Equality	Safety	Labour rights	Modern slavery	Data privacy and protection	Board and committees	Bribery and corruption	Incentives	Corporate Governance
Energy	✓		✓	✓		✓	✓	✓	✓	✓	✓		✓	✓	✓	✓
Materials	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		✓		✓	✓
Industrials	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		✓		✓	✓
Consumer Disc & Staples	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓
Healthcare		✓	✓		✓	✓		✓		✓	✓		✓		✓	✓
Financials	✓			✓		✓	✓	✓			✓	✓	✓	✓	✓	✓
Real Estate	✓	✓		✓		✓		✓	✓	✓	✓		✓		✓	✓
Technology	✓	✓				✓		✓			✓	✓	✓		✓	✓
Utilities	✓			✓		✓		✓	✓	✓	✓		✓	✓	✓	✓
Communications	✓						✓	✓		✓	✓	✓	✓	✓	✓	✓

5. Company Engagement

Company engagement is an essential part of our overall process to manage ESG threats and opportunities.

We generally approach this in two ways:

1. Seeking clarifications as part of general investment meetings.
2. Through dedicated meetings to achieve a particular objective (can be controversy/issue related or around certain ESG topics).

Engagement topics can be driven by the ESG review process, external research or news, meetings or discussions with our Sustainability Committee, or as part of investment decisions.

Depending on the issue being addressed, meetings can be 1on1 or group calls, with senior executives/Board level, or with internal experts within the company (e.g. Head of Sustainability).

6. Thematic and Key Issue Reviews

At times, it's appropriate to review topics or issues at the portfolio level, rather than for each specific company. The outcomes of these reviews flow through to the individual company assessments and engagement agendas.

These reviews can be conducted internally, or with the support of external research and reports. Typically, they cover larger thematic issues like climate change, modern slavery, or other emerging themes like sustainable agriculture.

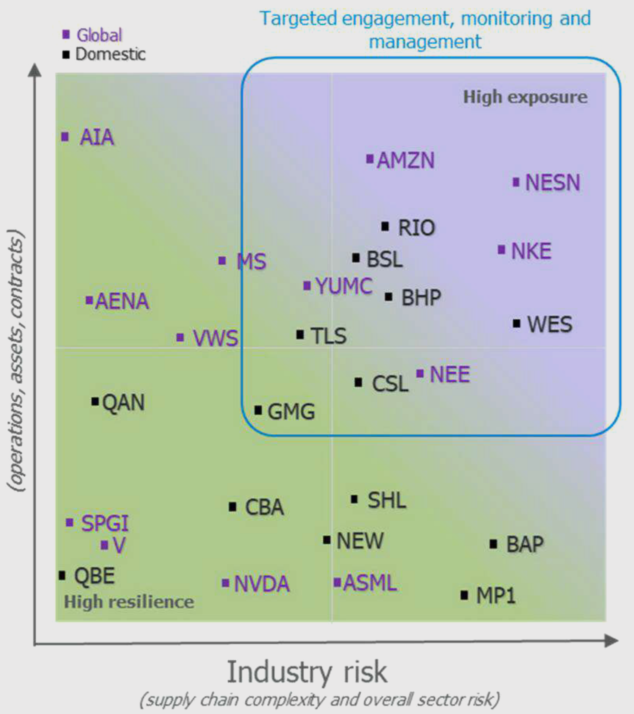
We used this approach to address heritage issues in mining following the destruction of Juukan Gorge Caves in 2020.

The table below summarises the outcome of a recent review we completed on modern slavery risks for our domestic and global portfolios. We've used the insights from this exercise to inform our engagement agenda and will be monitoring further reports as they are released.

Modern Slavery

When considering modern slavery implications for companies across our portfolios, firstly we look at the inherent risk based on geographic and industry level exposure. This helps us identify targeted and highrisk companies for further engagement and ongoing management.

Sector and geographic risk review



The adjacent graphic plots some examples of companies with our global and domestic portfolios (not including each company's response to the risk).

Risk review

Standard assumptions for the assessment:

- High-risk sectors include healthcare, materials and mining, technology hardware, food, beverage and agriculture.*
- Vulnerable populations involve migrant, baseskilled and contract workers.
- High-risk geographies might be conflict-affected zones with high corruption or a weak rule of law.

Agricultural regions in isolated areas that are difficult to inspect are at risk of forced and child labor.

Our Response

We prioritise engagement and further monitoring based on exposure to high-risk geographies and or sectors.

To determine the residual exposure related to modern slavery (operational and supply chain), we review company disclosures, third party reports, monitor controversies, and also engage directly with specialists within the business.

The Sustainable Committee assist us to understand best practice and monitor progress for specific highrisk companies (eg Nestle, Wesfarmers).

*As defined by ACSI, and other research.

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Examples of ESG Integration

Juukan Caves Destruction

Company: Rio Tinto

ESG risks: Significant reputational risks and possible impacts on long term development opportunities, along with possible regulatory action.

Summary: The destruction of Juukan Caves by Rio Tinto in May 2020 was a devastating incident that has significantly impacted the Australian Mining sector. From the outset, we engaged directly with Rio Tino leadership at the highest level to understand what had caused this issue. We also engaged with traditional owners and experts in Aboriginal heritage. Following the release of the Board review into the incident we were part of a broader group of investors that encouraged further action against the CEO and Executives with direct responsibility. We have been proactive in communicating our thoughts to the Board and Management and will continue to do so as this issue further develops.

Outcome: Maintained a modest position in Rio across all funds. Ongoing company engagement to assess companies management of process failings, governance, culture, and restitution for traditional owners.

Exclusion of thermal coal from all funds

Company: Various

ESG risks: Future risks from climate change impacts, community/investor expectations and views on thermal coal investment.

Summary: Climate change and the transition to a low carbon economy presents threats for some sectors and opportunities for others. The thermal coal industry is likely to be a big loser from climate change, and it's likely that new investments in thermal coal will be phased out in the next 5-10 years.

Outcome: A decision was made to exclude thermal coal producers from our investable universe. This was after a number of years without any thermal coal exposure.

Culture of bullying and harassment at Cleanaway

Company: Cleanaway

ESG risks: Reputational risks, impacts on workforce trust and staff retention, and reduced shareholder confidence.

Summary: In September 2020, allegations of bullying and harassment against the Cleanaway CEO were published in the AFR. Further articles were released until January 2021 when the CEO resigned. The Board does not believe the issue has wider cultural implications.

Outcome: After engagement with the Chairman and management, we believe Cleanaway remains in a strong position and with the CEO departing the immediate risk has reduced. We will discuss company culture and employee satisfaction once the new CEO is appointed.

Providing health options - Mondelez

Company: Mondelez international Inc

ESG risks: Reputation risks from controversies and regulatory compliance, with associated potential for fines, reduced customer retention and loss of revenues.

Summary: We assess Mondelez's ESG management practices as generally good. This is supported by their set of comprehensive disclosures and good progress over time.
Through engagement and ongoing monitoring of the company, we have seen Mondelez make progress on key ESG issues like modern slavery, packaging and emissions over the last few years, however we still assess residual cocoa supply chain risks as relatively elevated. Progress on providing healthy snack alternatives has also been relatively slow. We see these as potentially significant risks to the business, both from a reputational and regulatory perspective.

Outcome: We exited the position in Mondelez in all funds in January 2021. The decision was made because of a relatively weaker outlook for earnings growth, but also due to concerns about slow progress on improving the health profile of their products, as well as elevated risks around child labour in their supply chain.

We're part of the following initiatives:

INVESTOR 40:40 VISION SIGNATORY

Investor Group on Climate Change

IAST APAC

Climate Action 100+

We're signatories to RIAA and the PRI:

riaa Responsible Investment Association Australasia

Signatory of: PRI Principles for Responsible Investment

Alphinity awarded A+

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