ESG and Sustainability Report 2021

Contents

About this report

This is Alphinity's first annual Environmental, Social and Governance (ESG) and Sustainability Report. This report highlights our ESG-related achievements for FY21, including key engagement outcomes, case studies from across all funds, Sustainable Development Goals (SDG) outcomes for our two dedicated sustainable strategies, and outlines our approach to managing key issues like climate change and modern slavery.

As this is our first report, we have also included a number of context or policy related sections (for example, our approach to ESG integration). These sections have been included for completeness and may not be included in future reports.

We recognise there are always improvements to be made. If you have any feedback on this report please contact Jessica Cairns, Alphinity ESG and Sustainability Manager, directly at jessica.cairns@alphinity.com.au.

A message from the Alphinity founders

JOHAN CARLBERG
Principal, Lead Portfolio Manager

ANDREW MARTIN
Principal, Portfolio Manager

BRUCE SMITH
Principal, Portfolio Manager

STEPHANE ANDRE
Principal, Portfolio Manager

We are proud to present Alphinity's first ESG and Sustainability Report. This report is an accumulation of the effort we have made in responsible investing across all our Funds for more than a decade.

This report highlights our overall approach to ESG integration and active ownership, key engagement outcomes from the past year, our views on emerging and influential sustainability thematics like climate change and modern slavery, and outcomes from our two sustainability strategies.

Enhancing our approach to ESG integration

ESG considerations are an integral part of our investment process and have been an ongoing focus since Alphinity was established in 2010. ESG aspects are actively identified and considered by all members of the Alphinity investment team and remain an important part of our thinking for each company we invest in.

Over the course of our collective careers in the markets, going back to the 1980s, we have seen the ESG and responsible investment space change significantly. In its early days, ESG management was viewed as being 'nice to have' and was generally a separate step in the investment process. Now, integrating ESG is an important part of fundamental analysis and viewed as something we need to consider when making investment decisions.

With the increased focus by the investment industry on companies' social licence to operate, we too have evolved our approach to ESG-focused engagement. With that in mind, in 2020 we established a dedicated team, welcoming Jessica Cairns as the ESG and Sustainability Manager and Moana Nottage as the ESG and Sustainability Analyst. The team has already made a significant impact by clarifying and tightening some of our internal processes, establishing an enhanced ESG risk management framework, replacing external research into sustainability and, of course, putting together this ESG and Sustainability Report.

Company engagement

Although ESG engagement has always been a focus for the investment team, this year we increased our efforts to identify and complete specific engagements related to ESG issues and opportunities.

We conducted 76 company meetings in which ESG was the primary focus. These engagements are increasingly being held with the sustainability specialists of the investee company so we can discuss specific topics in detail.

We have also noticed a pleasing increase in the number of companies that are reaching out to us for our input into their own approach to ESG management and disclosure and to seek advice on improvements to the activities and disclosures they have in place.

Collaboration

Alphinity signed onto the United Nations-backed Principles for Responsible Investment (PRI) just after we started the company. Since then, PRI has become almost universal, not just in Australia but around the world, and its members are now cumulatively accountable for many trillions of dollars across all asset classes.

We are also members of the Investor Group on Climate Change and have been involved with the CA100+ collaborative engagements with Incitec Pivot and Orica.

This year we became signatories to two other investor initiatives:

- The 40:40 Vision Initiative, which is focused on improving gender diversity in the ASX200 executive teams.
- The Investors Against Slavery and Trafficking (IAST) initiative, which aims to collaborate on topics and issues related to modern slavery and human rights.

Evolution of responsible investing

Since Alphinity was established in 2010, we have witnessed an exponential increase in the number and types of responsible investment strategies in the market. Although we think that overall, this is a good thing as more capital moves towards ESG-focused strategies, it has also created confusion in the market around what a good responsible investment strategy should look like.

We started our first responsible investment fund, the Alphinity Sustainable Share Fund, when we formed the business. Back then, the industry was just beginning to appreciate the potential in ESG investing and, for a long time, the Fund was small and mainly of interest to ethical or specialist investors.

When the United Nations ratified the Sustainable Development Goals (SDGs) in 2016, the global agenda around sustainability undertook vast change. Global regulation started to transform and, not surprisingly, the broader investor community started to pay more attention to associated ESG and sustainability themes such as equality and climate action.

The United Nations has called for the 2020s to be a 'decade of action'. It's also a decade in which we expect governments around the world to start making significant changes to implement and achieve various net zero commitments. Expectations around ESG and sustainability are only going to become increasingly pertinent as the 2030 SDG deadline approaches.

At Alphinity, we aim to be in front of the ESG and sustainability wave and will continue to focus on enhancing our overall approach and increasing transparency for clients, at the same time as demonstrating to clients how responsible investment can be successfully implemented.

Global Sustainable

In 2021 we launched the Alphinity Global Sustainable Equity Fund to expand our sustainability offering beyond Australian shares. The strategy is consistent with the approach used by our Australian Sustainable Share Fund and aims to invest in companies which have strong ESG management practices in place, align positively with the SDGs, and have the potential to deliver strong financial returns.

Members of:

Signatory of:

Responsible investment at a glance

Two distinct approaches to implementing our approach to responsible investment

Using the Responsible Investment Association of Australia's (RIAA) scale for responsible investment, we can group our responsible investment activities into two distinct buckets.

1. **Core and Concentrated funds:** Using active engagement and ESG integration to manage ESG-related risks and identify opportunities. These funds also apply negative exclusions (subject to a 10% revenue threshold) for producers of thermal coal, tobacco, and controversial weapons.
2. **Sustainable funds:** Sustainable themed investing using activity-based negative exclusions (for example, fossil fuels, alcohol, gambling), company engagement, ESG integration, and the SDGs as a way to identify and invest in companies that can deliver positive outcomes for society and the environment.

Five pillars of responsible investing

We are committed to investing responsibly because we believe that environmental, social and governance (ESG) factors can have a material impact on both the risk and the returns of investments.

Environment

- Climate change/emissions
- Pollution
- Biodiversity/deforestation
- Resource use (water, energy, waste)

Social

- Customer satisfaction
- Data protection & privacy
- Diversity
- Employee engagement
- Human rights & labour standards

Governance

- Board & executive composition
- Committee structure
- Bribery & corruption
- Lobbying
- Whistleblower schemes

ESG RISK INTEGRATION

We integrate ESG factors through investment decision making

STEWARDSHIP AND ACTIVE ENGAGEMENT

We are active managers and focus on using our influence to encourage better ESG outcomes and reduce risk

ADVOCACY

We consider, assess and advocate for further action on key sustainability thematics like climate change and modern slavery

SUSTAINABLE STRATEGIES USING THE UNSDGS

We have two dedicated sustainability strategies structured around the SDGs

TRANSPARENCY

We have a public ESG policy in place and disclose our proxy activities and portfolio holdings

Report highlights

About us

Alphinity
- Established in 2010
- 17 employees
- 29% female employees
- 5 strategies across Australian and Global equities
- 136 companies held in FY21

Sustainable funds
Two strategies that align with the United Nations Sustainable Development Goals (SDGs)

Sustainable Compliance Committees
- Sustainability specialists
- Elaine Prior – ESG expert
- Melissa Stewart – Human rights expert

Supporting investor-led change through collaborative engagements

FY21 ESG and sustainability enhancements

Two dedicated ESG and Sustainability resources join Alphinity
Jessica Cairns and Moana Nottage support the domestic and global investment teams

Proprietary ESG risk review framework
Introduced a materiality assessment tool that enables the investment team to consistently identify and assess material ESG issues for companies across our portfolios

Targeted company engagement on ESG and sustainability matters
Active ownership demonstrated in 76 tailored ESG and sustainability meetings

In-house sustainability assessment aligned to the UNSDGs
SDG analysis completed for 150 companies across domestic and global equities

SDG outcomes from our Domestic Sustainable and Global Sustainable strategies

Sustainable thematics
- Sustainable cities
- Inclusive economies
- Healthy lives
- Climate action

Strongest overall SDG alignment


Strongest sector alignment
- Industrials
- Health Care
- Financials
- Information Technology

Understanding our investment risks: A deep dive into two key sustainability areas

Climate change
Alphinity carbon exposure:
- Weighted average carbon intensity: 148 CO2e/$USm revenue
- Total carbon emissions: 992 994 tonnes CO2e
- Carbon footprint 69.3 CO2e/ $AUDm invested

Key insights for FY21 holdings:
- 75% have a carbon policy
- 51% pledged to achieving net zero
- 56% disclosed interim targets
- 21% certified to the Science Based Targets Initiative

Modern slavery and human rights
Modern slavery risk areas:
- Upstream supply chain risks
- Downsteam product and service value chain risks
- Operational risks

Key insights for FY21 holdings:
- 24% present a high risk in at least one of the three risk areas. Of these, 82% have human rights policies and management systems in place
- Technology (including communications) and financial sectors are particularly exposed to downstream value chain risks
- Industrials, consumer discretionary, and consumer staples are the sectors most exposed to supply chain risks

ABOUT ALPHINITY

Who we are

Alphinity is an active equities investment manager based in Sydney. Our purpose is to always put clients' interests first by striving to deliver consistent outperformance. We do this through our philosophy of investing in quality, undervalued companies which our research concludes are in, or about to enter, a period of earnings upgrades.

Alphinity was established in 2010 by its four founders who had all worked together in Australian equities at a large global firm since the early 2000s. In 2015, Alphinity expanded to include a highly experienced global investment team applying the same philosophy and process to the much larger set of investment opportunities outside of Australia. We now have dedicated teams managing both Australian and global equity funds, supported by a range of specialist resources.

Our boutique ownership structure results in a powerful alignment between our fund managers and the objectives of investors in our funds. By outsourcing business management, distribution, administration and some compliance services to Fidante Partners, it allows us to focus solely on investing and adding value to our clients.

Here at Alphinity, we have:

- a well-defined investment philosophy with a sole focus on investing in quality undervalued companies in an earnings upgrade cycle
- a distinctive, disciplined, and rigorous research process. This process is a truly unique partnership between detailed analyst-driven fundamental research and targeted quantitative research inputs that help identify companies that fit the investment philosophy
- two highly experienced, accomplished, and cohesive investment teams
- a business structure which strongly aligns the objectives of our investors with our investment staff
- domestic and global analysts and portfolio managers all based in Sydney.

We have five active strategies across domestic and global equities, including two dedicated sustainable strategies. Our sustainable strategies aim to invest in listed global and Australian shares that have the capacity to make a positive contribution to society in areas of economic, environmental and/or social development by contributing towards the advancement of at least one of the Sustainable Development Goals.

ESTABLISHED IN

2010

5

strategies across global and domestic equities

2

dedicated sustainable strategies

17

full-time employees

A$15.3B*

assets under management

* as at 30 June 2021

Our team

Figure 1. Alphinity team structure

Global

Jeff Thomson
Portfolio Manager

Mary Manning
Portfolio Manager

Jonas Palmqvist
Portfolio Manager

Nikki Thomas
Portfolio Manager

Trent Masters
Portfolio Manager

Domestic

Stephane Andre
Principal, Portfolio Manager

Johan Carlberg
Principal, Portfolio Manager

Bruce Smith
Principal, Portfolio Manager

Andrew Martin
Principal, Portfolio Manager

Stuart Welch
Portfolio Manager

Jacob Barnes
Research Analyst

Andrey Mironenko
Research Analyst

Shared resources

Jessica Cairns
ESG and Sustainability Manager

Moana Nottage
ESG and Sustainability Analyst

Elfreda Jonker
Client Portfolio Manager

Andrew Taylor
Head of Trading

Richard Hitchens
Senior Quantitative Analyst

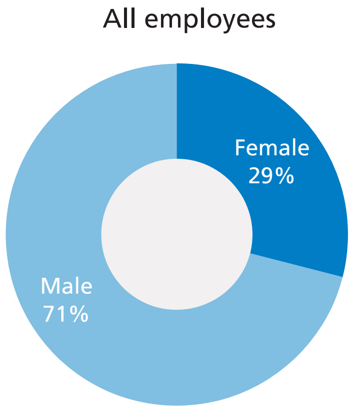
Fidante Administration and Distribution (~160 staff)

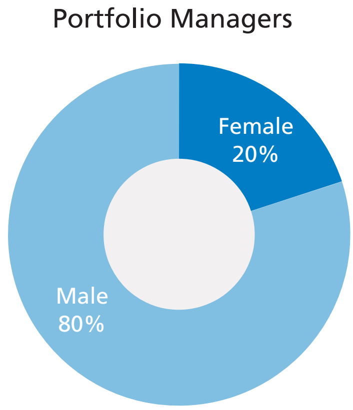
Investment Operations	Risk & Performance	Compliance	Fund Finance	Business services

Diversity

We celebrate that our workforce is culturally diverse with people from a range of backgrounds and nations. In the past year we have significantly increased our gender diversity across all levels of the organisation.

Figure 2. FY21 gender diversity metrics





Our funds

Alphinity has five active strategies across domestic and global equities with total funds under management of A15.3 billion as of 30 June 2021[1].

Fund Name	Strategy Summary	Year established	Number of stocks
Alphinity Australian Share Fund	Diversified portfolio of quality large-cap Australian shares	2010	35-55
Alphinity Concentrated Australian Share Fund	Concentrated portfolio of Australian shares representing our best ideas	2010	20-35
Alphinity Sustainable Share Fund	Diversified portfolio of Australian shares which have strong ESG practices and support one or more of the SDGs	2010*	35-55
Alphinity Global Equity Fund	Concentrated portfolio of high-quality global shares diversified across different industries and countries	2015	25-40
Alphinity Global Sustainable Equity Fund	Concentrated portfolio of global shares that have strong ESG practices and support one or more of the SDGs	2021	25-40

*Revised in 2017 around the SDGs

1 Source: Fidante Partners

OUR APPROACH TO ESG INTEGRATION

We integrate environmental, social, and corporate governance (ESG) considerations **across all portfolio's that we manage**. We consider ESG as an essential part of our investment process and use our role as active investment managers to work with companies to improve overall ESG management and outcomes.

Introduction

The integration of environmental, social, and corporate governance factors into our investment management processes and ownership practices is essential for our success as investment managers. We recognise that ESG factors can have a material impact on the performance of companies (positively and/or negatively) within our portfolios and use our role as active investment managers to advocate for companies, where possible, to mitigate potential risks and improve our overall understanding of individual companies' management of ESG issues.

All members of the Alphinity investment team are responsible for integrating ESG considerations into investment decisions. Our ESG policy (available on our website) is applicable to all Alphinity funds and sets out the overarching principles and guidelines we apply to ensure that environmental, social and governance risks and opportunities are adequately considered as part of our investment processes.

FY21 enhancements

In FY21 we made a number of important enhancements to our company-wide approach to ESG integration, including:

Dedicated ESG resources

In August 2020, Jessica Cairns joined Alphinity in the role of ESG and Sustainability Manager. In June 2021, following 12 months working with the team as a paid intern while completing university, Moana Nottage joined Alphinity on a full-time basis in the new role of ESG and Sustainability Analyst.

Jessica and Moana support the investment team to integrate ESG across the management of all funds, provide training, undertake research, company engagement, and report on key thematic areas like climate change and modern slavery.

Oversight of engagement activities

To support outcomes-focussed engagement, we have implemented new tools to track ESG-related engagement activities including specific engagement objectives, themes, and outcomes.

ESG risk identification

Building on our existing ESG integration processes, we have introduced a materiality assessment tool to support the investment team to consistently identify and assess material ESG issues for companies across our portfolios. See Figure 4 for an illustrated example.

This tool was established in FY21 and therefore implementation is ongoing. We anticipate that assessments for all investee companies will be completed by January 2022.

The outputs from the assessment process will be used to develop a revised ESG risk register to track and monitor ESG-related risks and management strategies for our holdings.

ESG data providers

To supplement our use of the MSCI ESG Research database, Refinitiv Eikon was added as an additional ESG research and data provider. Refinitiv provides granular ESG data that supports our research at both the company and portfolio levels.

ESG integration process

We integrate ESG-related considerations across all portfolios that we manage. Regardless of whether a company is being reviewed for our sustainable or core strategies, we use the same overall approach to identify, consider, and manage ESG-related threats and opportunities (Figure 3).

ESG integration is an iterative and dynamic process, informed by a range of inputs. These include ESG data and research, company disclosure, company engagement, thematic level research, changes in the market, societal expectations, and policy conditions.

This approach is implemented as part of our due diligence process for stock initiation and on an ongoing basis as part of stock ownership and active portfolio management.

ESG-related threats and opportunities are identified and reviewed on an ongoing basis. Where appropriate, ESG-related impacts are integrated into investment decision making. This may include: excluding stocks based on activities, quantitatively reflecting the impacts in valuations, or qualitatively managing the risks through portfolio construction processes.

Company engagement is an essential part of our overall process of assessing 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 gather information and/or achieve a particular objective (can be controversy/issue related or around certain ESG topics).

Information on our FY21 engagement outcomes is presented in a later section of this report.

Depending on the issue being addressed, engagements can take the form of 1 on 1 or group meetings or calls with senior executives/directors, or with internal experts within the company (for example, Head of Sustainability).

Figure 3. Our approach to ESG integration

Alphinity's multi-faceted approach to ESG integration includes research, a structured risk review process, ESG consideration in investment decision making, ongoing reporting and review, and use of engagement to better understand ESG risks and opportunities and advocate for change.

ESG DATA AND RESEARCH

- Using external data providers, company disclosures, and third-party research we collect information on ESG-related topics and issues
- Where needed we seek advice from external experts on specific ESG issues or topics

ENGAGEMENT

- We actively engage to better understand ESG risks and opportunities, and advocate for change
- We engage with a range of company representatives, as well as external experts where needed
- We engage on an ongoing basis during and between reporting seasons

REPORTING AND REVIEW

- We integrate ESG factors into internal reporting
- We regularly review our position on ESG threats, opportunities and mitigation measures, and discuss implications at investment meetings

RISK REVIEW

- Material ESG issues are identified considering a standard set of ESG-related topics
- ESG-related impacts and issues are identified and managed as appropriate

INVESTMENT CONSIDERATIONS

- The means of integrating ESG issues into our investment process varies depending on the specific ESG risk that's been identified
- Factors may be qualitatively considered or quantitatively incorporated into our valuation process where relevant
- Consideration of ESG factors may result in a range of outcomes like the outright avoidance of a company with poor ESG performance, or the inclusion of a carbon tax allocation for future cash flow projections

FY21 enhancement: ESG materiality assessment tool

Building on our existing ESG integration processes, we have introduced a materiality assessment tool that enables the investment team to consistently identify and assess material ESG issues for companies across our portfolios.

The below graphic illustrates this process for two company examples: one consumer company and one materials company. This assessment covers around 30 material issues and assigns one of six materiality indicators to those that are relevant to the company and/or sector. This list is dynamic and reviewed on an ongoing basis, by the relevant analyst in collaboration with the ESG specialists, to ensure completeness over a range of ESG issues and maintain relevance across all sectors.

Completing this process using a consistent set of material issues helps to ensure we are considering a full range of ESG topics and not just focusing on what ismost topical at a point in time. The same approach is applied to all stocks across all funds.

Insights gained through this process are used to identify the most material and relevant ESG risks and, where necessary, develop appropriate management strategies that inform our engagement agenda, financial modelling and investment decision making.

Figure 4. Materiality assessment illustration

Material ESG issues

Environment	Carbon (direct)
	Carbon (indirect)
	Water
	Waste
	Packaging
	Pollution
	Biodiversity
	Raw materials sourcing
	Green products
	Carbon neutrality
	Animal welfare
	Land use
	Climate change vulnerability (physical)
Social	Labor management
	OH&S
	Human capital development
	Supply chain labor / human rights
	Diversity & inclusion
	Product safety & quality
	Privacy and data
	Indigenous participation
	Nutrition and health
	Customer support
	Community impact
Governance	Corporate governance
	Ethics and corruption
	Board composition & effectiveness
	Remuneration
	Competitive behaviour
	Leadership & partnerships

Analysis

Company specific analysis using **third party data**, **team insights**, outcomes of **engagements**, and company **disclosure**

O+	High opportunity
O	Opportunity
T/O	Threat/Opportunity
T	Threat
T+	High threat
r	Relevant

Company specific opportunities and risks

	Example industry company:	Consumer	Materials
Environment	Carbon (direct)	T	r
	Carbon (indirect)	r	O
	Water		T+
	Waste	T	
	Packaging	T	
	Pollution		T
	Biodiversity		T
	Raw materials sourcing	T+	
	Green products	O	O
	Carbon neutrality	O+	
	Animal welfare	T	
	Land use		T+
	Climate change vulnerability (physical)		T
Social	Labor management	T+	T+
	OH&S	T	T
	Human capital development	O+	T+
	Supply chain labor / human rights	T+	r
	Product safety & quality	T	
	Privacy and data	T	
	Indigenous participation	O	T/O
	Customer support	O+	
	Community impact		T/O
Governance	Corporate governance	O	
	Ethics and corruption		T+
	Remuneration		T/O
	Competitive behaviour		T

CASE STUDY

Lynas – ESG integration in practice

Lynas is the only producer of scale of separated Rare Earth outside of China and the second largest in the world. Its Mount Weld Rare Earth deposit in Western Australia is acknowledged as one of the highest-grade Rare Earths mine in the world. Lynas is also vertically integrated, operating a processing and separation plant in Kuantan, Malaysia.

Rare Earths are used in many high tech and future-facing industries, including electronics, wind turbines, catalytic converters, and electric and hybrid motor vehicles.

Stock initiation

In January this year, as part of our stock review process, we conducted due diligence on Lynas Rare Earth's ESG management practices focusing on two primary issues:

1. The status of Lynas' relationship with the Malaysian community, and ongoing risks related to operational disruption and changes to its licensing conditions.
2. Radiation levels of Rare Earths' processing waste and its potential for contamination.

Rare Earths are processed in several stages. Currently, Lynas extracts the Rare Earths in Kalgoorlie, then ships the minerals in a concentrated form to Malaysia for additional processing and separation. Lynas has been operating in Malaysia for more than 10 years and during this time its presence has become highly politicised with community concern about possible contamination from radioactive waste. During 2019 and 2020, a number of licensing changes were negotiated with the Malaysian Government to maintain its operating licence and address community and political issues. It was agreed that by 2023 Lynas would relocate its cracking and leaching processing operations from Malaysia to Kalgoorlie in Western Australia and establish a dedicated Permanent Disposal Facility in Kuantan for the radioactive waste. The separation plant would be allowed to be kept in Malaysia.

To properly understand ongoing community and political risks in Malaysia, and the potential risks of moving a share of its operations back to Kalgoorlie, we:

- initiated multiple targeted engagements with senior company management
- spoke to experts in Rare Earth processing and Malaysian politics
- sighted company testing documents showing the radiation levels of the waste.

Outcome

Following the engagements with the company and conclusions from our own research, we were comfortable that the ESG risk profile of Lynas is improving with the relocation of some operations to Western Australia, and increased effort in community engagement.

Environmental approvals appear to be well under way in Kalgoorlie with State and Federal support to the industry. Having seen reports regarding the radioactivity levels of the waste, we are comfortable that the actual risk of environmental contamination is quite low, as the level of radioactivity is minimal, like that found in fertiliser.

We will continue to engage with the company as it finalises the transition to Kalgoorlie and establishes the dedicated permanent waste facility in Malaysia.

ACTIVE OWNERSHIP

As investors, we have the ability to influence the behavior and actions of companies we are invested in. We take this responsibility very seriously and, where possible, aim to use this **influence to create positive outcomes** for the business, shareholders, and society more broadly.

Proxy voting

We vote all resolutions put to shareholders (where we vote on behalf of our clients)

We actively engage with companies we are invested in on an ongoing basis

We seek to manage controversies and issues with clear engagement objectives and actions

We collaborate with other investors where possible to achieve greater impact

We believe the right to vote as a 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 is to maximise the value of our unit holders' investments. We will comply with a mandate client's instruction to vote in a particular manner; however, any such instruction will not bind the votes we exercise on behalf of any other clients. Where we vote against the recommendation of the board, we aim to engage with the company, before and after the vote, to explain the reasoning and hopefully encourage change.

In FY21 we voted on all resolutions where we have voting rights. Actual votes exercised in calendar 2020 are available here and 2021's votes will be published in January.

We don't often need to vote against resolutions due to our ESG management processes. Many resolutions that go to AGMs are quite routine and relate to Director re-elections. The most contentious voting issues are usually around compensation, for example Remuneration Reports and incentives.

In recent years there has been an increase in shareholder activism around the world, particularly related to climate change. In Australia, the preferred method of activists has been to submit two resolutions: the first proposing a change to the company's constitution to allow binding resolutions, and the second to address a particular issue or compel a course of action. For example, to increase disclosures, make a net zero emissions commitment or refrain from a certain activity.

Generally, we resist constitutional changes as we believe the existing Corporations Law already provides shareholders with adequate access to companies' public meetings. Sometimes however, the subsidiary resolutions are worth supporting and we will do that in order to reinforce to management that the issue is worthy of consideration. This is done on a case-by-case basis and backed up by direct discussion with the company.

For companies held in our global portfolios, shareholder-proposed resolutions are quite common. We consider all resolutions, including shareholder resolutions, on a case-by-case basis.

CASE STUDY

Alphabet Proxy Voting

While Alphabet is primarily known for the Google search engine that allows us unlimited access to information on the internet quickly and simply, it is the immense data generation and AI capabilities that underpin this aspect of Alphabet that entrenches Alphabet's dominance in online advertising markets and allows Alphabet to position itself in a range of adjacent industries.

Despite our positive view on the core business, there are various governance issues that we monitor closely relating to Alphabet's share class structure and remuneration. These governance issues are not material enough to preclude investment, but they do warrant attention.

At the June 2021 Annual General Meeting there were a total of 21 resolutions proposed, including eight proposed by shareholders rather than the board.

A number of these resolutions addressed risk areas identified through our internal ESG analysis and as such, we voted in favour of the following:

- approve recapitalisation plan for all stocks to have one-vote per share
- require an independent Director nominee with human and/or civil rights experience.

We also voted against the re-election of four Directors based on their role in the Remuneration Committee and our ongoing concern regarding pay practices.

Company engagement

We aim wherever possible to engage with all the companies in which we have invested, as well as those we are considering investing, as we believe this is the most effective way to gain a detailed understanding of the ESG risks and opportunities they are facing.

We engage with a range of internal stakeholders to better understand ESG issues and encourage stronger ESG outcomes. Depending on the specific issues involved, these will include the Chair, Directors, company executives, senior management and/or sustainability specialists. This is primarily done through 1 on 1 engagements however it can also include group investor meetings and collaborative engagements through industry groups such as PRI, RIAA, CA100+ or 40:40.

We record all dedicated ESG engagement activities separately to regular company meetings in an engagement log and track progress against specific engagement objectives.

Figure 5. FY21 engagement metrics and insights

NUMBER OF COMPANY ENGAGEMENTS:

76

64%

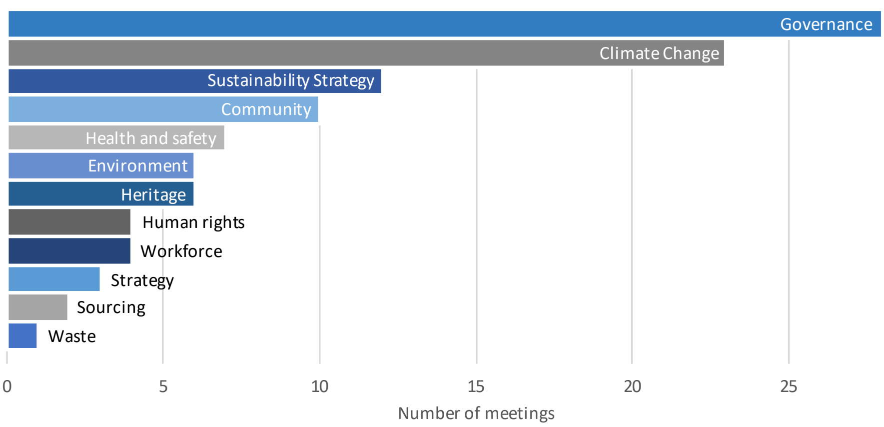
of meetings included a discussion on governance

33%

of meetings were organised to discuss active controversies

63%

63% of meetings included a discussion on climate change and carbon emissions



FY21 engagement outcomes

Engagement metrics and themes

In FY21 we conducted 76 company engagements with a specific focus on ESG and sustainability across our global and domestic funds. This does not include general investment meetings held throughout the year, for example during reporting season, where the primary focus is around financial performance, although material ESG matters are frequently also raised in these meetings.

A full list of ESG engagements for FY21 are available in Appendix 1.

The ESG-related topics shown in Figure 5 are the ten most discussed ESG themes from our FY21 ESG company engagements. Of these, climate change and governance were the two most common topics.

Climate change represents a significant systemic challenge for the global economy and as such was a central topic for engagement. Discussions covered net zero commitments, low carbon transition plans, emissions footprints and reporting, and management of physical risks.

Governance is also a common topic for engagement. Along with the usual governance topics, in the past year discussions have also been focussed on the integration of sustainability aspects into corporate governance frameworks. For example, the way sustainability targets are linked to senior management responsibilities and compensation. Human rights, modern slavery, health and safety and environmental management were also discussed at about 30% of meetings last year.

Heritage, community engagement and social licence were topics that featured prominently in discussions with Australian metals and mining companies following the destruction of the Juukan Caves in May 2020.

Engaging with specific objectives

Although we will react to specific controversies or events, such as the destruction of Juukan Caves by Rio Tinto, we primarily aim to be proactive and to use engagements to encourage specific objectives and outcomes.

In FY21 we engaged on a range of specific issues with companies in our portfolios. For each engagement we determine a set of objectives and monitor progress through ongoing engagement (Table 1).

Table 1. FY21 engagements with specific objectives (examples)

Company	Issue title	Objectives	Status	Comments
Domestic				
BlueScope Steel	40:40 Vision	**1** Become signatories of the 40:40 Vision Initiative	Closed	Company became a signatory in April 2021.
Steadfast	Remuneration structure	**1** Encourage changes to remuneration structure	Closed	Board agreed to lift the FY21 starting EPS number.
Oz Minerals	Climate change	**1** Introduce climate targets aligned with the Paris agreement	Closed	Company has made a commitment to net zero with medium-term targets and action plan disclosed.
BlueScope Steel	Climate change	**1** Improve accountability for climate change **2** Introduce climate targets aligned with the Paris agreement	Partially addressed	Company appointed new Executive for Climate Change with an intent to strengthen its targets and strategy.
CSL	Exploitation claims of donors in the US	**1** Assess ethical issues related to placement of donor centres in low-income regions **2** Encourage a commitment to do more advocacy in donor health monitoring	Partially addressed	Objective 1 is closed. Company confirmed it is considering more advocacy, for example, to complete donor centre impact study. centre impact study.
Cleanaway Waste Management	Culture of bullying and harassment under CEO	**1** Discuss allegations over CEO behaviour, bullying and harassment **2** Determine if issue is systemic within organisation	Partially addressed	Removal of CEO addressed immediate concerns. We are now monitoring culture under new leadership.
Rio Tinto	Destruction of Juukan Caves	**1** Monitor progress to implement a new Social Performance function **2** Monitor response to Australian government recommendations on Heritage **3** Actively engage on all potential social licence issues	Ongoing	Ongoing engagement with senior managers.

Company	Issue title	Objectives	Status	Comments
Domino's Pizza Enterprises	Lagging ESG rating and disclosure	**1** Improve the company's overall ESG disclosure and MSCI score	Ongoing	Company has appointed Executive for Climate Change, committed to improving disclosure and engaged with MSCI.
Goodman Group	Ongoing concern with remuneration report	**1** Encourage engagement with proxy advisors related to remuneration report **2** Establish targets and outcomes for diversity, circular economy, and modern slavery	Ongoing	Formal engagement kicked off in May 2020.
Amcor	Use of recycled plastics/ Suitability for SSF	**1** Establish targets related to the use of recycled plastic resin in production **2** Establish clear accountability for sustainability strategy from top down	Ongoing	Ongoing engagement with senior managers. Confirmed as not suitable for SSF at this stage.
Global				
Mondelez	Modern slavery	**1** Assess management of cocoa supply chain issues	Closed	Divested in December 2020 due to a weaker investment case, including ongoing ESG risks.
Nomad Foods	Sustainability and ESG risks	**1** Confirm sustainable sourcing practices **2** Determine proportion of food that is 'healthy' to align with SDG3	Closed	Satisfactorily addressed both objectives. Suitable for the Sustainable fund.
Royal DSM	Emissions	**1** Clarify emissions footprint **2** Confirm strategy to reduce emissions and timing for transition to sustainable fuels	Partially addressed	Company confirmed vitamin manufacturing is energy intensive and largely gas powered. Ongoing discussion is needed.
Chipotle Mexican Grill	Workforce management	**1** Determine extent and nature of fair work controversy	Ongoing	Engagement was initiated in May 2021. Management confirmed basis of controversy and remains under negotiation. Follow up is needed.
Teck Resources	Fossil fuel exposure and ESG risks	**1** Clarify long-term met coal production strategy **2** Discuss heritage management practices and risk in Canada	Closed	Generally good ESG management practices in place, however, high metallurgical coal exposure prohibits inclusion in the Sustainable Investment Universe.

Company	Issue title	Objectives	Status	Comments
Giant Manufacturing	Sustainability and ESG risks	**1** Assess management of labor and modern slavery risks **2** Clarify timing for improved ESG and sustainability disclosures/reporting	Closed	Not considered suitable for inclusion in the Sustainable Investment Universe due to high ESG risks. Reassess after review of first ESG report in 2023.
HelloFresh	Sustainability and ESG risks	**1** Clarify strategy for low cost EveryPlate brand **2** Confirm risk management practices for sourcing **3** Encourage disclosure of quality and safety metrics	Partially addressed	Company confirmed intent to expand EveryPlate to all markets. Overall strong ESG management practices, however, will continue to engage on enhanced disclosures.
ING Groep	Sustainability and ESG risks	**1** Assess responsibility of lending practices **2** Determine nature and outcomes of recent AML controversies	Closed	Satisfactorily addressed both objectives. Monitor controversy management. Suitable for inclusion in the Sustainable Investment Universe.
Pulte Group	Lagging ESG management and disclosure	**1** Confirm strategy related to affordable homes **2** Evaluate ESG management **3** Encourage enhanced sustainability disclosure	Partially addressed	Objective 1 is closed. ESG management is satisfactory, and company is seeking to strengthen overall approach, resourcing, and disclosures.
John Deere	Sustainability and ESG risks	**1** Clarify sustainability case for precision agriculture **2** Assess modern slavery and operational ESG risks	Partially addressed	Company has strong sustainability offerings. Will continue to engage on diesel reduction and new technology uptake. Suitable for inclusion in the Sustainable Investment Universe.
Volvo Group	Sustainability and ESG risks	**1** Confirm timing and strategy around carbon neutral fleet **2** Assess modern slavery and operational ESG risks	Ongoing	Company is leading in the low carbon transition. Engagement will continue implementation of EV and hydrogen strategies. Suitable for inclusion in the Sustainable Investment Universe.

Managing controversies

Serious negative events — also known as controversies — can have a lasting impact on a company's reputation as well as its valuation. Controversies can influence relationships with stakeholders including workforce, communities, industry partners and governments. Depending on the nature of these controversies, a company can also be exposed to severe operational and financial impacts like workforce strikes, site closures, regulatory and legal action, or fines, and or loss of future growth opportunities.

Unfortunately, in the publicly listed equities space, there are few companies that have a clean slate when it comes to past or current active controversies. The larger and more diverse a company is, the more controversies it is likely to have experienced.

When deciding on how to act in response to an ongoing controversy, we consider numerous factors including the severity of the issue, implications for business performance, visibility in the media, whether the issue should be considered isolated or systemic, whether there are cultural implications or concerns regarding corruption and ethics, and how timely and appropriate the company's response has been.

In some situations, the appropriate action might be to divest, however, most often the best action is to firstly engage with the business to properly understand the issue, adjust the portfolio to manage the risk if required, and continue to engage with the company over time to encourage appropriate behaviour in the future.

In the past financial year there have been multiple active controversies which have required ongoing management and action. Examples include bullying claims against the CEO of Cleanaway Waste Management, Rio Tinto and the destruction of the Juukan Caves and modern slavery risks associated with Mondelez's sourcing practices. Commentary on Rio Tinto and Mondelez is provided below. These three examples, as well as others, are included in Table 1 above.

When faced with a new or changing controversy we generally follow a four-step process:

1
ENGAGE
with the company to understand the cause, impacts, and proposed management

2
VALIDATE
the company's account with external experts, further research, and other third-party views

3
ACT
to manage risk within the relevant portfolio/s. For example, by adjusting the active weight, divesting from the stock, and/or externally communicating our views

4
MONITOR
the issue through ongoing engagement and adjust actions as requiredactions as required

CASE STUDY

Mondelez

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. Regardless of the company's progress we still assess the cocoa supply chain risks as high.

In response to the specific controversies related to supply chain management and cocoa farming risks:

- we **engaged** directly with the company, including a member of the Sustainability team, to understand how they were managing this issue
- we reviewed its external documentation, along with industry reports, to **validate** its views
- despite some progress in rolling out its Cocoa Life program, we assessed the supply chain risks as remaining high. The outlook for earnings had also weakened due to growth investments and the probability of a normalisation of COVID-19 stay-at-home consumption trends. As a result, we **acted** by exiting our position in our global fund in January 2021
- we will **monitor** the company's progress on this issue and plan to re-engage over the next year, or if something material changes.

Collaborative engagements

We look for opportunities to collaborate with other investors on a case-by-case basis. Generally, when considering participation in collaborative engagements we look for alignment with our portfolio holdings and ESG priorities. We also consider the objectives of the engagement and whether we anticipate that it will create additional impact beyond our existing engagement activities with various companies. We believe collaboration is particularly useful for technically difficult areas like climate change.

We are members of the Investor Group on Climate Change, signatories to the Climate Action 100+ working group, and have collaborated with other investors on its engagements with Incitec Pivot and Orica. We are also members of the 40:40 Vision Investor Working Group, and members of the Investors Against Slavery and Trafficking initiative (IAST).

In October 2020, industry super fund HESTA launched the 40:40 Vision Initiative, an investor-led collaborative initiative that aims to see women fill at least 40% of executive roles in ASX200 listed companies by 2030. BlueScope Steel, one of our allocated engagements, has now committed to the 40:40 Vision targets and initiative.

Investor Group on Climate Change

IAST APAC

Climate Action 100+

40:40 VISION

CASE STUDY

Rio Tinto and the destruction of Juukan Caves

Background

On 24 May 2020, Rio Tinto set off explosives which resulted in the destruction of the Juukan Gorge, home to one of Australia's oldest and most significant locations of indigenous heritage.

This event made worldwide headline news and has fundamentally shifted the way investors think about reputational risk, social licence to operate, and heritage management.

As modest holders of Rio Tinto shares, we were horrified when this event occurred. Until then, we and the rest of the industry had viewed Rio Tinto, along with other large Australian miners, as leaders in the management of ESG risks.

As further information was released on the actions of Rio Tinto leading up to this event, we became increasingly concerned about Rio's organisational culture, its leadership, and its ability to repair the relationships with key stakeholders, including the traditional owner group most impacted by the destruction of the caves, the Puutu Kunti Kurrama and Pinikura peoples (PKKP).

Primary causes

In our view, this primary causes of this event were:

- a lack of true and informed consent by the Traditional Owners to Rio Tinto as part of the mining development process
- weak oversight and governance by the Rio Tinto management and Board resulting in this site not being identified and managed as high risk through its internal management processes
- a regulatory system which favours new mine development project approvals over the needs and views of traditional owners.

Our actions

- **Engaged with the company to understand the issue:** From the outset, we have been proactive in engaging with Rio Tinto leadership to understand the root causes of the event, Rio Tinto's proposed solutions correcting the issues, and how best to take accountability for its failings to avoid the destruction of the caves.
- **Engaged with experts:** In line with our process to manage controversial events, we also engaged with traditional owners and experts in indigenous heritage and native title law to more fully understand the impact it had on the PKKP.
- **Encouraged further action:** Following the release of the Board review into the incident, we were part of a broad group of investors that encouraged further action against the CEO and responsible managers within the business.
- **Used our voting rights:** In the lead up to the 2021 AGM, we communicated to the Board that we did not support its position related to the ex-CEO and Executive payouts. We subsequently voted against the Remuneration Report, and the re-elections of both the Chair and the director leading the Remuneration Committee. We also considered voting against the re-election of the Chair of the Sustainability Committee; however, we believe her role to repair the relationship with the PKKP will be important over the coming years. We will monitor progress towards this objective closely and plan to re-engage during FY22.
- **Portfolio implications:** Following the event, we did not increase our holding until we were comfortable that actions had been taken by the company to prevent this event happening in future. We also wanted to see that the company had begun to repair its external reputation before increasing our investment.

Implications for the wider mining industry

The event has shifted our thinking on heritage management and elevated our appreciation of the potential risks related to a company's reputation and social licence. As a result, we have increased our level of engagement on heritage-related matters across all the mining companies we own and extended the discussion to other companies where this might also be relevant (for example, industrial companies).

We will also be watching closely any subsequent changes to relevant regulation and social impact assessment or development approval frameworks.

Conclusion

Ultimately, when considering how to manage significant controversies and ESG-related issues, we try to be forward-looking. Considering the changes it has made, we feel that the Rio Tinto of the future will be a very different company to the Rio Tinto of the past.

We remain shareholders, thereby keeping a seat at the table and a degree of influence in future developments, but we have been – and will keep – closely monitoring the company's policies and conduct to make sure the changes they have made are real and enduring.

Regardless of the company's past failings, with the change in leadership and change in structure to manage heritage risks on the ground, we believe Rio Tinto is on the right path to start to repair its reputation and prevent the risk of this type of event re-occurring.

KEY SUSTAINABILITY THEMES IN FY21

Climate Activism

- Net zero commitments
- Say on Climate vote
- Regulatory action against companies
- Green hydrogen

Modern Slavery and Human Rights

- Australian Modern Slavery Act disclosures
- Regional and commodity risks

Social

- Culture and social licence
- 40:40 Vision Initiative
- Workforce management
- COVID-19 impacts

Environmental

- Biodiversity
- Circular economy

Governance

- Linking Executive compensation to KPIs
- Sustainability integration through senior management and the board

In the past 12 months, sustainability-related thematics like climate change, modern slavery, diversity and inclusion, biodiversity and the circular economy have continued to gain traction amongst investors.

The changing regulatory landscape and increasing activism by individual investors, investor groups and industry bodies, have been key drivers of this trend.

Given climate change and modern slavery are the two most dominant themes of FY21, we have detailed our management approach to these topical risks in the following sections of this report.

Climate activism

The climate change thematic is proving to be the most pervasive and significant ESG driver of the last 10 years. More than 130 countries have now set a target of reducing emissions to net zero by 2050, including three of the largest and most influential global economies: the USA, China (by 2060), and the U.K.

In May 2021 we were spectators to four landmark proceedings related to climate action:

1. a Dutch court found that Shell is required to reduce its total emissions by 45% by 2030
2. Chevron shareholders approved a resolution to require that the company reduces its scope 3 emissions
3. Exxon shareholders voted to remove three board members in favour of experts in renewable energy and climate science
4. the Australian federal court found that the Minister for the Environment has a duty of care to protect young people from climate change.

This year we also watched the ‘Say on Climate’ initiative take off with investors, with the aim to encourage companies to commit to a climate resolution at their Annual General Meetings whereby shareholders can vote on a company’s carbon strategy and action plan. So far, large contributors to global emissions including Unilever, Nestle, Royal Dutch Shell, BHP, Rio Tinto, and Santos have voluntarily adopted this initiative.

Modern slavery and human rights

Modern slavery in all its forms has emerged as one of the key human rights issues this year. In part, this is because of the requirement to report under the Australian Modern Slavery Act but it is also a sign of the growing focus on the social aspects of ESG.

By the end of June 2021 more than 1900 Modern Slavery statements had been publicly released through the Australian Government Modern Slavery register.

With the increased awareness of modern slavery risks, like the complexity of regional manufacturing hubs, commodity exposure, and the complexity of global supply chains, more companies are now exposed to reputational and legal risks associated with their management of human rights (for example, boycotts of Nike operations in China).

The COVID-19 pandemic and economic shutdowns have highlighted the vulnerability of specific workers in our communities, especially those in low paid jobs like factory workers and those who are working in contract, part-time or casual workforces. Looking ahead, we expect there will be an ongoing focus on workforce structures and the relationship with human rights abuses.

The spirit of the Modern Slavery Act is to act as a carrot rather than a stick. No company is immune to the risks of modern slavery. We therefore believe it is important that companies increase their transparency and leadership on this issue, including where issues are found, as this better supports the identification and management of modern slavery that persists in our large, complex, and global supply chain networks.

Social elements

The destruction of Juukan Caves in May 2020 was a catastrophic event that significantly altered the landscape of how companies and investors think about heritage management, social licence, reputational risk, and company culture.

This event, as well as others related to management behaviour and decision making, has resulted in a heightened focus on company culture and reputational risk.

Workforce management aspects like health and safety, diversity and inclusion, and labour rights continued to be ongoing ESG risk areas in FY21, particularly because of the workforce-related impacts of COVID-19.

Environmental elements

With the ongoing attention on climate change risk management and mitigation, environmental elements like biodiversity and the circular economy are starting to become more topical for investors.

The EU Green Deal aims to help Europe meet its net zero target and focusses on areas like waste management, sustainable food systems, protecting ecosystems and natural capital, and pollution. The EU Taxonomy was released earlier this year and has also increased the amount of investor focus on measuring environmental impacts and outcomes, and how best to avoid the risk of 'greenwashing'.

Although waste and packaging have both been strong environmental themes for a number of years, the focus has now evolved towards circular solutions through industry partnerships and supply chain initiatives.

Governance

Managing governance aspects of investee companies is core to our overall ESG management approach. Generally, the types of issues that are addressed are reasonably consistent year on year. This year, however, there has been increased attention on the link between executive compensation packages and sustainability objectives or outcomes, and the overall focus on managing sustainability risks at the Board level.

These aim to address the growing concern that ESG and sustainability might not be a core part of an organisation's purpose and are therefore just a marketing exercise.

Linking ESG and sustainability with corporate governance ensures a top down approach with clear accountability and reporting requirements to the market. It also reduces the risk that companies could be accused of 'greenwashing'.

Climate change

Introduction

Alphinity acknowledges the findings of the Intergovernmental Panel on Climate Change and supports the United Nations Paris Agreement to limit global warming to well below 2°C, compared to pre-industrial levels. We believe that a global challenge such as this needs to be addressed by coordinated action from all parties, including investors, private business, and government.

Carbon emissions generally refer to the total greenhouse gas (GHG) emissions caused directly and indirectly that contribute to global climate change. GHG emissions can be expressed as a carbon dioxide equivalent (CO_2e), comprising seven GHGs identified by the Kyoto Protocol holding varying degrees of global warming potential. The GHG Protocol defines three key ‘scopes’ to categorise emissions:

Scope 1

Direct emissions from owned or controlled sources such as fuel combustion in buildings or vehicles.

Scope 2

Indirect emissions from owned or controlled sources such as the purchase of electricity, steam, heating or cooling.

Scope 3

All other indirect emissions in a company’s value chain such as business travel, the extraction and production of purchased materials or the use of sold products or services.

Our operational impact

Alphinity’s operational energy use is very small. In comparison to the emissions footprint from our investment activities, our operational impact is immaterial.

Our energy use consists of:

- electricity used to power our single office in Sydney, NSW (scope 2)
- indirect fuel use for air travel (scope 3)
- indirect electricity used when employees work from home (scope 3)
- indirect energy use for operational goods like IT equipment and paper (scope 3).

To confirm the immateriality of our footprint, we will estimate and report on our energy use and emissions from FY22. We will also implement a policy position to offset all business-related air travel. Currently most employees already do this, however this is not currently being tracked.

Managing climate change in our investments

As a key investment thematic, climate change presents a range of material social and economic threats and opportunities to investee companies.

These threats and opportunities could be driven by the physical impacts of climate change (for example, increased average temperatures) or by the transition to a low carbon economy (for example, changes in local and global carbon policies as well as changes in demand and supply dynamics). To enable greater transparency and clarity around risks to individual companies and to financial markets more generally, we support and encourage disclosures in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

The below sections have been developed in accordance with the TCFD recommendations. Through these disclosures we have addressed the governance, risk management, and metrics and targets related recommendations. The strategy requirements have been partially addressed as detailed scenario planning is needed before we are fully compliant. A reference table has been included in Appendix 2.

Governance

The Alphinity Board is responsible for approving the firm’s ESG policy and any associated disclosures, including our commitments to climate change.

Alphinity reports on organisational risks to the Board of Directors, including risks related to ESG aspects such as climate change. From FY22 a dedicated report on climate change risk and management will be presented to the Board annually. This will be in addition to the ongoing risk reporting as part of our Governance, Risk and Compliance (GRC) Framework.

The day-to-day management of climate-related threats and opportunities is the responsibility of all members of the Alphinity investment team. Where appropriate, this may include incorporating considerations into investment analysis, beliefs and decisions.

Risks and Opportunities

Across our portfolios we manage a number of specific climate-related threats and opportunities through investment decision making, valuation and modelling, and company engagement.

These risks vary by sector and depend significantly on each company's operating model, operational or asset locations, and appetite to transition towards more resilient business practices.

Our understanding of relevant climate risks has been developed based on our knowledge of investee companies and their strategies, participation in industry groups like the Investor Group on Climate Change (IGCC), and consideration of relevant climate scenarios (for example, the IEA Sustainable Development Scenario).

Material risks in the short to medium-term

High-level risks which could be material to our investment decisions in the short to medium-term (3-5 years) are:

Short to medium-term risks (3-5 years)	
Threat	Changes to global climate policies (for example, a carbon border tax) impacts the regulatory environment and operating conditions for investee companies, potentially affecting the cost of capital, reducing revenue and/or lifting costs, and prompting earnings downgrades, which could lead to share price declines.
Threat	Investee companies fail to appropriately plan for and estimate how the potential impacts of climate change may limit their future earning potential, leading to a loss of shareholder confidence and reduced financial performance.
Threat	External pressure to set a net zero commitment, encourages investee companies to make false or misleading statements leading to regulatory or legal action.
Opportunity	Strategically considering climate change drivers as a business opportunity rather than a threat creates opportunities for new markets and/or revenue streams for investee companies. This increases shareholder confidence and reduces the likelihood that the low carbon transition will have an overall net negative impact on the business.

Additional material risks in the long-term

Additional high-level risks which could be material to our investment decisions in the longer term (>5 years) are:

Longer term risks (>5 years)	
Threat or Opportunity	Changes to global climate policies and global weather patterns, significantly impacts macro-economic factors like import/export markets, government investments, tourism and migration, and consumer behaviour, which significantly change global market conditions.
Threat	Changes to global climate policies affects global trade and impacts Australia's position as a major exporter of minerals and energy.
Opportunity	An accelerated transition to a low carbon economy creates new market opportunities, which continues to benefit businesses that are actively seeking to participate in the transition.

Actions to address climate change

Figure 6. Six pillars to support the low carbon transition and manage climate-related threats and opportunities across our portfolios.

Risk analysis	Bench-marking	Exclusion criteria	Carbon footprints	Company engagement	Investment case considerations
We consider climate change-related risks as part of our fundamental approach to ESG management	We use the CA100+ indicators to assess company specific performance	We exclude thermal coal producers from all portfolios	We measure the carbon intensity and absolute carbon footprints of our portfolios	We participate in collaborative engagements (for example, CA100+)	We invest in companies supporting the low carbon transition
This risk analysis includes transition and physical risks	We complete portfolio wide assessments on climate risk and opportunity to compare and benchmark	For our Sustainable funds we exclude all fossil fuel producers	We report regularly to our clients on portfolio emissions	We encourage companies through engagement to reduce their emissions footprints and set clear targets	We consider climate change factors in our investment case considerations when relevant

In response to climate-related threats and opportunities, and to support the transition to a low carbon economy, we implement the following six core actions (Figure 6):

1. **Risk analysis:** We identify climate-related risks at a company specific level using our fundamental approach to ESG integration. The analysis of climate climate-related risks includes consideration of risks associated with the low carbon transition and the physical impacts of climate change.
2. **Benchmarking:** In FY21 we adopted the CA100+ framework (Figure 7) as the most appropriate way to assess the progress of individual companies towards net zero. Using this framework helps us to be consistent with a standard industry approach.

Figure 7. CA100+ indicators

	Indicators
Goal one: Action on emissions	**Indicator 1** – Net zero commitment covering all material emissions
	Indicator 2 – Long-term target covering all material emissions and is aligned
	Indicator 3 – Medium-term target covering all material emissions and is aligned
	Indicator 4 – Medium-term target covering all material emissions and is aligned
	Indicator 5 – Quantified decarbonisation strategy and green revenue targets
	Indicator 6 – Capex alignment testing comprehensively in place
	Indicator 7 – Robust climate policy engagement disclosure
Goal two: Strong climate governance	**Indicator 8** – Robust climate governance in place
	Indicator 9 – Just Transition planning in place
Goal three: TCFD aligned reporting	**Indicator 10** – Robust TCFD reporting in place including 1.5 degree scenario

We also complete portfolio wide assessments looking at emissions intensity and absolute emissions, relevant risks (for example, physical and transition risks), how risks are being managed, and overall commitments to net zero.

3. **Exclusion criteria:** We exclude thermal coal producers from all domestic and global portfolios and fossil fuel producers from our two dedicated sustainable funds.

4. **Carbon footprints:** We measure the carbon intensity and absolute emissions of all portfolios and report regularly to clients. For consistency, we use data from third party rating providers to complete this analysis.

The main purpose of measuring portfolio emissions is to identify large contributors to our overall emissions intensity and prioritise engagement.

5. **Targeted company engagement:** We undertake targeted engagements with companies where we believe they:

   a. should improve their overall approach to climate change including governance, risk management, reporting, or strategy; and

   b. have an opportunity to actively contribute towards the low carbon transition.

We also engage with companies on their use of climate scenarios, management strategies for future climate change risks, and plans to increase the resilience of assets once the physical impacts of climate change become more pronounced.

We track and measure outcomes of our ESG engagement activities, including those related to climate change. See the Company Engagement section of this report for more information.

6. **Investment case considerations:** We integrate climate-related threats and opportunities into investment decision making in line with our overall approach to ESG risk management. Specifically related to climate, there will be some situations where the risk to a company's existing operations or outlook is so great that it will destroy the investment case entirely. We reached this conclusion with companies engaged in thermal coal mining for example. Notwithstanding the inevitable occasional period of cyclical strength in coal prices because of global factors, the medium and long-term risks for the companies primarily engaged in this activity are almost certainly greater than the potential reward. We concluded that it should not be invested in at all.

CASE STUDY

Investing in companies driving the low carbon transition: Trane Technologies

The Trane Technologies brands, including ThermoKing and Trane, bring sustainable, efficient climate solutions to buildings, homes, and transportation.

Through these two distinct brands it:

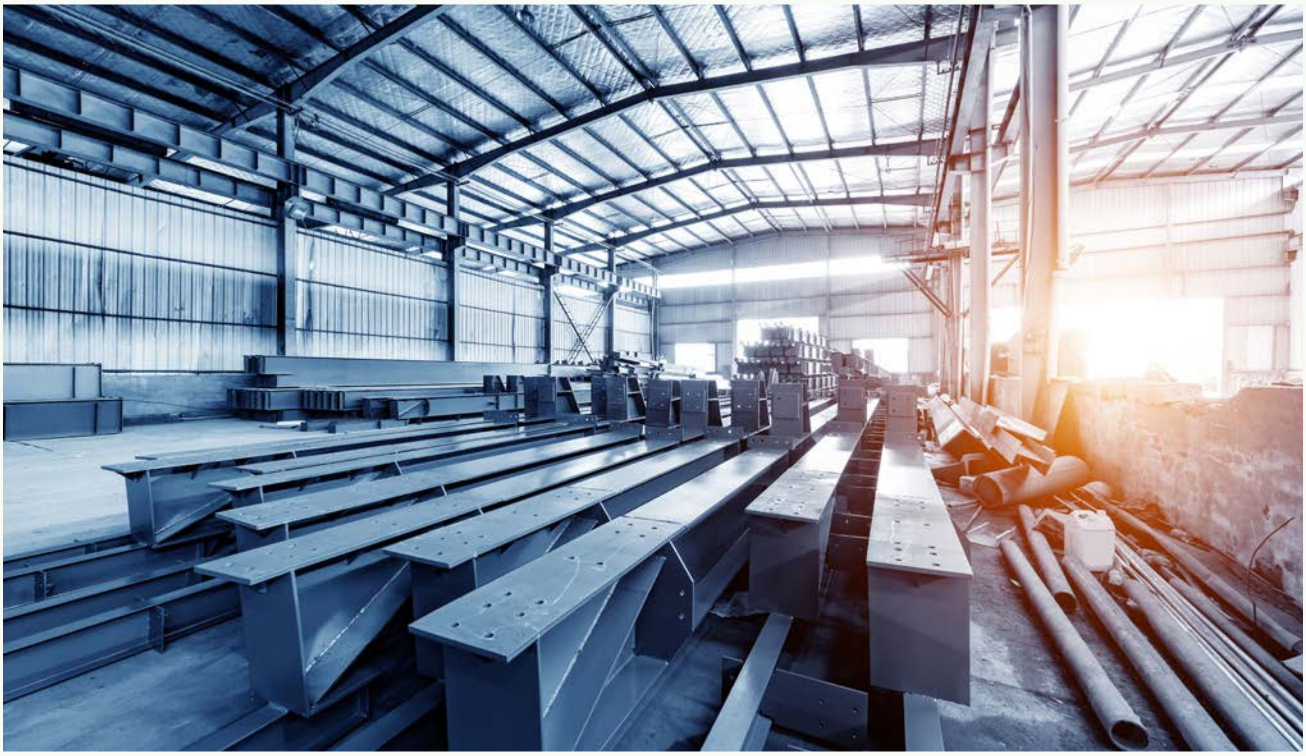
- creates comfortable, energy efficient indoor environments for commercial and residential applications; and
- provides climate-controlled solutions to move refrigerated food, medicines, and other perishables around the world.

In 2020, Trane Technologies launched a 2030 Sustainability Strategy to achieve carbon neutral operations, zero waste to landfills and net positive water use, and reduce absolute energy use by 10%.

It also committed to reduce one gigaton of carbon emissions (CO_2e) from its customers' footprints by 2030. Trane has estimated that this reduction could equate to 2% of the world's annual emissions – or, the annual emissions of Italy, France and the U.K. combined.

CASE STUDY

Achieving positive outcomes through engagement: BlueScope Steel



The problem:

BlueScope operates in a hard to abate sector and until recently had not made any clear commitments towards net zero. The company has a large operational emissions footprint and is a significant contributor to the overall emissions intensity of our domestic portfolios.

Actions by investors:

As a large contributor to Australia's emissions BlueScope is part of the CA100+ initiative's focus companies for engagements. It has also been targeted by activist groups for its' perceived lack of action on climate change.

As a large contributor to our investment emissions footprint, we have engaged extensively with BlueScope's management to understand its' climate change strategy and encourage further action to set clear commitments and reduce its' emissions.

In FY21 we had four dedicated meetings with the management on climate change aspects.

Outcomes:

In the past year, BlueScope has made several important changes to its commitments and climate strategy:

- Appointed a Group Executive for Climate Change
- Announced a scope 1 and 2 net zero target by 2050 and an initial $150m allocation over next 5 years towards the low carbon transition
- Committed to several trials and/or investigations into new low carbon solutions and technologies such as hydrogen injection in blast furnace, hydrogen DRI as well as shorter term optimisation opportunities with increased scrap usage.

Emissions intensity metrics and performance in FY21

We use a range of carbon-related metrics across our portfolios to help assess overall carbon exposure, sector or company level risks, and progress towards net zero. These metrics are useful indicators of a portfolio's potential exposure to transition risks such as policy intervention or changing consumer behaviour. Figure 8 illustrates key findings regarding the carbon exposure and company management for our domestic and global funds.

Unless specifically requested by an investor we do not manage our portfolios with an upper carbon limit in place. The purpose of measuring and tracking carbon emissions for each fund, and then at an aggregate across all portfolios, is to identify and manage companies with high emissions intensity and therefore high exposure to emissions-related risks like carbon pricing.

Carbon exposure metrics

To calculate the results presented in Table 2 we have followed the TCFD recommendations[1]. These include:

- **Weighted Average Carbon Intensity:** Portfolio's exposure to carbon intensive companies, expressed in tonnes of CO2 equivalent emissions per $US million revenue (CO2e/$USm)
- **Total Carbon Emissions:** The absolute greenhouse gas emissions associated with a portfolio, expressed in tonnes of CO2e (tonnes)
- **Carbon Footprint:** Total carbon emissions for a portfolio normalised by portfolio market value, expressed in tonnes of CO2e per $AUD million invested (CO2e/$AUDm).

Table 2. Alphinity's total carbon exposure across all funds

Scope 1 & 2	Alphinity Total
Weighted average carbon intensity	148 tonnes CO2e/ $USm revenue
Total carbon emissions	992 994 tonnes CO2e
Carbon footprint	69.3 CO2e/$AUDm invested

Note: Emissions data coverage of non-cash assets 99%.

Emissions management metrics

Across our FY21 holdings we observed an assortment of emissions management efforts. This ranged from very limited disclosure to best-practice reduction targets that extend to upstream and downstream material scope 3 emissions.

Across all portfolios:

- **75%** of companies[2] have a carbon policy in place involving a clear ambition for emissions reduction, renewable energy use, or energy efficiency or reduction.
- **51%** of companies have disclosed a net zero pledge[3], which included anything from scope 1, 2 or 3 emissions to lending or investment emissions.
- **56%** of companies have interim carbon or energy reduction targets in place with **21%** of these certified by the Science Based Targets Initiative (SBTI) for either 1.5°C or 2°C scenarios.

1 We calculate all three metrics using the portfolio holding values, carbon emissions data from MSCI (monthly scope 1 and 2 emissions) and market capitalisation and revenue information from Bloomberg. Supporting information for carbon footprinting and exposure metric formula can be found in TCFD's Supplemental Guidance for the Financial Sector.

2 Emissions management metrics have been calculated based on FY20/21 company disclosures, and publications from SBTI.

3 We remain cognisant of differences between a net zero target, compared to a goal or aspiration, and whether said target, goal, or aspiration includes all material Scope 3 emissions or not.

Figure 8. Carbon-related metrics for our FY21 global and domestic holdings

Domestic Funds

Characteristics

78	$18B
Companies held in FY21	Average market cap

Emissions management metrics (% of total companies held in FY21)

64%	44%	17%	40%
have a carbon policy in place	have a net zero pledge	are certified as carbon neutral	disclose scope 3 emissions

Carbon exposure metrics (fund specific)

	Australian Share Fund	Concentrated Share Fund	Sustainable Share Fund	Combined
Weighted average carbon intensity (CO2e/$USm revenue)	195	198	125	192
Carbon footprint (tonnes/$AUDm invested)	93	95	65	92

Global Funds

Characteristics

58	$197B
Companies held in FY21	Average market cap

Emissions management metrics (% of total companies held in FY21)

90%	60%	12%	67%
have a carbon policy in place	have a net zero pledge	are certified as carbon neutral	disclose scope 3 emissions

Carbon exposure metrics (fund specific)

	Global Equity Share Fund	Sustainable Share Fund	Combined
Weighted average carbon intensity (CO2e/$USm revenue)	81	22	30
Carbon footprint (tonnes/$AUDm invested)	14	7	8

Note: The Weighted Average Carbon Intensity (tCO2e/$M sales) measures a fund's exposure to carbon intensive companies. It is calculated as the sum of security weight multiplied by the security Carbon Intensity (MSCI Monthly Data). This allows for comparisons between funds of different sizes.

Comparing the carbon exposure of our domestic and global funds FY21

Comparing the carbon exposure of our domestic and global funds there is a clear difference in outcomes across all metrics.

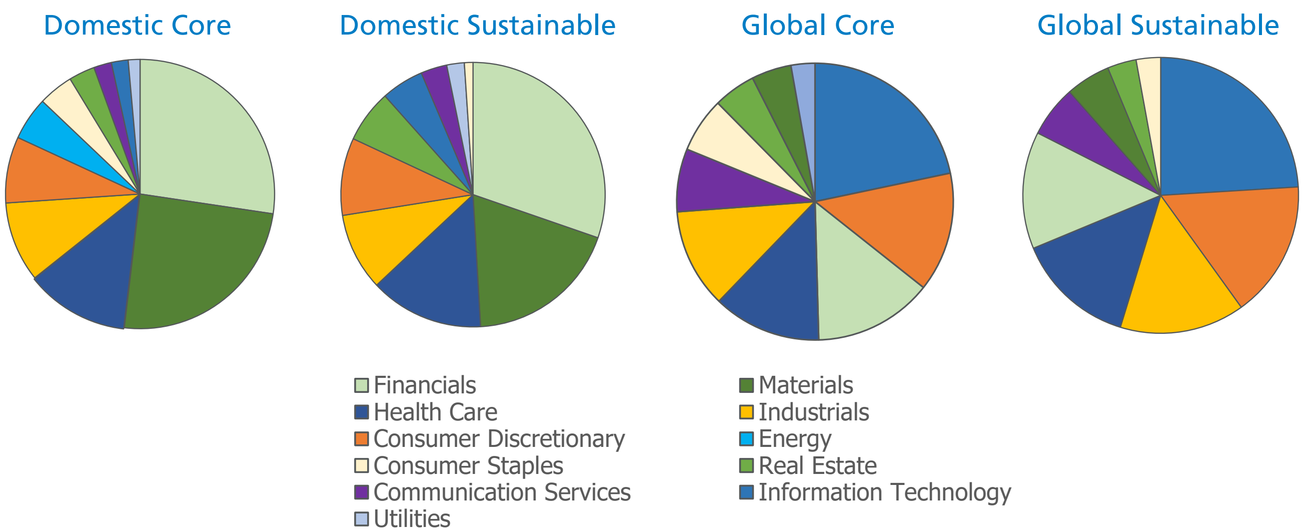
The weighted average carbon intensities of our domestic funds are notably higher than for our global funds. This is mainly because of the higher overall exposure to the materials and energy sector in the domestic context (Figure 9), and the higher level of climate action in the global context.

The materials sector, which includes large commodity miners like BHP and Rio Tinto, and the energy sector, which includes oil and gas companies like Santos and Woodside, generally has a higher energy intensity than sectors like information technology, to which the global funds can be more exposed.

Most of our global companies, which are notably larger by average market cap, had a carbon policy in place during FY21. Of these, 60% have made a net zero aspiration, and 67% disclose scope 3 emissions as part of reporting.

When it comes to carbon neutrality however, a higher proportion of domestic companies have disclosed on carbon neutral status, of some kind, compared to those from global companies.

Figure 9. Sector weights across domestic and global core and sustainable strategies for all FY21 holdings.[4]



4 Weighted sum of FY21 average holding value by sector.

ALPHINITY’S CARBON INTENSITY HAS BEEN FALLING OVER TIME

We investigated how the weighted average carbon intensity of our portfolios have changed over the last 18 months relative to the benchmarks.[5]

> *All Alphinity’s strategies have consistently remained below the carbon intensity of the respective benchmarks since January 2019.*

The exclusion of all fossil fuel producers (including those within the energy sector) from the domestic Alphinity Sustainable Share Fund, is the main reason that the emissions intensity is almost half that of its benchmark. The Alphinity Global Sustainable Equity Fund is about 85% lower than its benchmark.

As explained previously, the greater exposure of the Australian market to carbon intensive sectors such as materials is explanation for the domestic portfolios showing a higher carbon intensity than the global portfolios. This is clear in Figures 10 and 11, where the average carbon intensity of the ASX300 benchmark has consistently been higher than the MSCI world index.

Figure 10. Domestic weighted average carbon intensity compared to respective benchmarks over 18-month period.

Alphinity Domestic Carbon Intensity* vs Benchmark

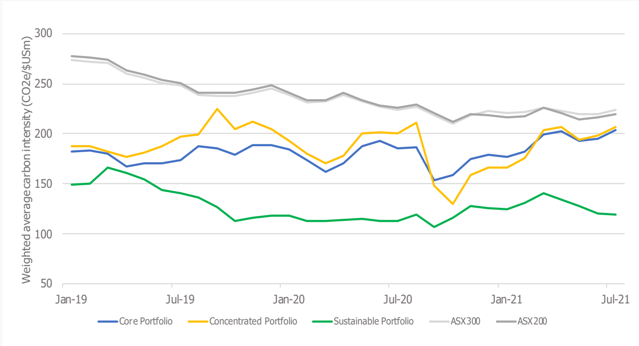
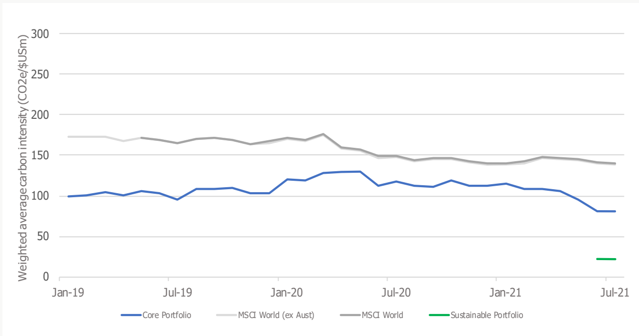


Figure 11. Global weighted average carbon intensity compared to respective benchmarks over 18-month period.

Alphinity Global Carbon Intensity* vs Benchmark



*Carbon intensity: Weighted average tonnes of CO2e emissions per $USm revenue.

Domestic carbon contributors

The top five contributors to our domestic carbon footprint (aggregate across fund holdings) are:

	Emissions intensity (CO2e/$USm)[6]	Carbon policy	Net zero pledge	Interim targets
BHP	376	Y	Y	Y
Santos	2125	Y	Y	Y
Origin Energy	1966	Y	Y	Y
BlueScope	1178	Y	Y	Y
Qantas	953	Y	Y	N

5 Using end-of-month weightings and monthly MSCI carbon data. Carbon emissions data coverage >97% across portfolio and benchmark companies.
6 MSCI Data as at June 2021 for domestic and global carbon intensity values.

All five have a net zero policy or aspiration in place, though not necessarily covering their material scope 3 emissions. All disclose their annual carbon emissions, along with progress to reduce their impact.

Santos, BHP, and Rio Tinto have all also committed to a Say on Climate Vote, which will give shareholders the ability to vote on their Climate Change Strategies at an upcoming AGM. We are engaging with all of these companies, among others within our portfolios, to encourage further action to reduce their carbon footprints.

Global carbon contributors

The top five contributors to our global carbon intensity (aggregate across fund holdings) are:

	Emissions intensity (CO_2e/$USm)[6]	Carbon policy	Net zero pledge	Interim targets
NextEra	2483	Y	N	Y
Teck Resources	397	Y	Y	Y
Yum China	225	Y	N	N
American Tower	308	Y	N	Y
Royal DSM	125	Y	Y	Y

All companies have a carbon policy in place, with Teck Resources and Royal DSM pledged for net zero. Yum China have also committed to develop Science Based Targets in line with the Paris Agreement.

As a large US utilities' provider, NextEra is the only global company with carbon emissions like that of the domestic companies. While NextEra is one of the biggest renewable energy players in the world, due to revenues from fossil fuels it was not suitable for inclusion in the sustainable strategy.

We have engaged with Yum China, Royal DSM, and American Tower to understand the main contributors to their carbon intensity. In all cases, the engagement focused on discussing the scope of their footprints, near-term opportunities to reduce their emissions, and existing or planned longer term targets.

CARBON INTENSITY DISTRIBUTION ACROSS FY21 HOLDINGS

The top five emitters for each domestic and global strategy contributed[7] approximately:

- 50% of the domestic carbon intensity; and
- 75% of the global carbon intensity.

This indicates that a few high emitting companies make up a large part of the global weighted average carbon intensity, whereas the high emitters are less concentrated in the domestic portfolio.

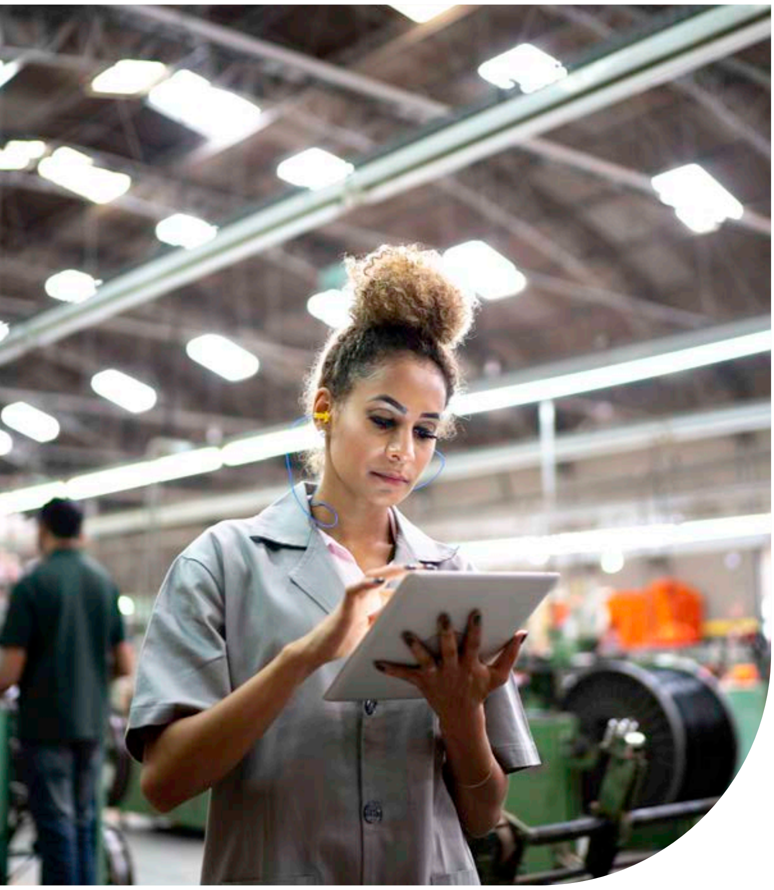
7 Average monthly weight of FY21 holdings and average FY21 carbon intensity from monthly MSCI data, as a proportion of the weighted sum carbon intensity of all holdings.

Modern slavery and human rights

We strongly support the United Nations Guiding Principles on Business and Human Rights and we expect our investee companies to do the same. We believe that instances of modern slavery exist extensively throughout global supply chains and require a concerted effort by all members of the global economy to eradicate this issue.

With the introduction of the Australian Government's Modern Slavery Act, and the increasing focus on modern slavery risks globally, this issue has become increasingly important for our business operations and investment practices.

When considering the balance of risks between our operations and supply chains, we believe that addressing modern slavery and human rights issues within our investment practices is where we can use our leverage and deliver the biggest positive impact. We are also aware of these issues within our operations and supply chains and aim to manage them where relevant.

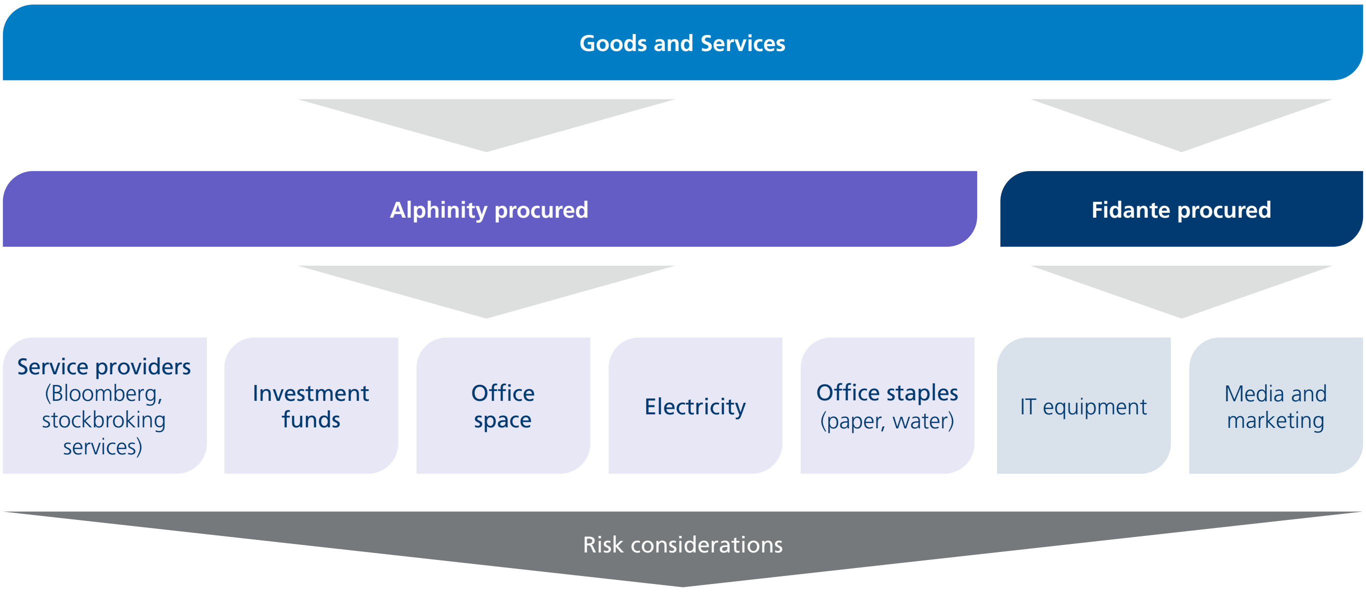


Modern slavery risks in our operations and supply chain

Key facts:

- **Organisational structure:** Alphinity is part owned by Challenger Group through its wholly owned subsidiary, Fidante Partners.
- **Governance and oversight:** The Alphinity Board is responsible for ensuring that Alphinity and its supply chains comply with Modern Slavery standards.
- **Employees:** As at the end of FY21, Alphinity had 17 employees, all of whom are members of the investment team or highly qualified specialists in their respective fields. Other non-investment functions, for example administration and distribution services, are outsourced to Fidante Partners.
- **Location:** All employees are based in Australia and operate from the company's office in Sydney NSW.
- **Revenue:** The firm's revenue is below both NSW and Federal legislative thresholds for mandatory reporting. At this point we will not make a voluntary report under the Modern Slavery Act but will still examine our business activities and relationships for any possible modern slavery exposures.
- **Procurement of goods and services:** The majority of Alphinity's procurement practices are related to technical or software services, office space and investment funds. Other procurement needs are outsourced to Fidante Partners (Figure 12).

Figure 12. Alphinity's operational procurement activities and mitigation strategies



Alphinity procured

Of the above goods and services, we believe office staples, like paper, and services to our office space, like cleaners, present the highest risk of modern slavery:

- **Office Space:** We have one office which is leased through global office leasing agency Savills. Savills have a modern slavery statement in place.
- **Office staples:** We purchase Australian made office paper from Officeworks (subsidiary of Wesfarmers) and water from Neverfail (subsidiary of Coca Cola Amatil). Both companies have published modern slavery statements with very progressive action plans in place.

The source of our investment funds also present a risk from a modern slavery perspective. Our funds are sourced from a range of wholesale investors, including Fidante. These include Sovereign and State Governments, Superannuation Funds, Investment Platforms and Insurance Companies. All but one, a Sovereign Wealth Fund, are based in Australia.

Fidante procured

Challenger Groups FY20 Modern Slavery statement identified procurement of IT equipment as a high-risk area requiring further analysis.

They have an approved Human Rights policy in place and are undertaking further work to assess and manage their material risks.

Given the relatively small number of employees and the nature of our business we believe there is a low likelihood that modern slavery or human rights violations are present in our operations and supply chain. However, during FY22 we will conduct further reviews of these areas and, where required, develop action plans to mitigate any risks we might identify.

Modern slavery risks in our investments

As investors, we have a responsibility to ensure, to the greatest extent possible, that modern slavery does not occur in the companies in which we invest, including in their supply chains.

We measure a company's ability to manage modern slavery risks within their supply chains and operations based on governance and oversight, existing policies, and management strategies that enables them to identify and respond to incidences as they arise.

In the last couple of years there has been a notable increase in modern slavery disclosure. This enhanced disclosure supports our efforts to complete due diligence in this area and supports more effective engagement with companies that we own. We actively encourage our investee companies to disclose their risks related to modern slavery, include case studies, outline their governance practices, and highlight mechanisms to manage issues when they arise.

In FY21 we completed the following activities related to managing modern slavery in our investments:

- **Engagement:** We engaged extensively on this issue with companies that we held during the year.

> *Across all dedicated ESG meetings, 30% of meetings included a discussion on modern slavery and human rights.*

- **Investor collaboration:** We became a signatory to the Investors Against Slavery and Trafficking (IAST) in October 2020.
- **Risk identification:** We completed a risk assessment to identify companies in our portfolios that presented a high level of risk within their upstream supply chains, downstream value chains, or operations (see the case study below for outcomes and highlights).
- **Internal awareness raising:** We participated in the United Nations Global Compact annual forum and the RIAA annual conference, which both included presentations on modern slavery. We also organised an internal training session to better understand the implications of the Australian Modern Slavery Act.
- **Expertise:** Melissa Stewart joined the Sustainable Fund Compliance Committee in FY21. Melissa is a human rights lawyer, with past roles at the United Nations, NGOs, government, and private sector, and has specific expertise in modern slavery.

Looking ahead to FY22, we will continue to focus on modern slavery as a material risk to our investment practices, and develop specific actions plans for high-risk companies that we own.

FY21 enhancement: Understanding modern slavery risks in our investments

Aim of the assessment

To understand the exposure to modern slavery and human rights risks across our investments, in FY21 we completed a risk assessment for all companies that were held across our domestic and global portfolios, addressing three key risk categories:

1. **Upstream supply chain risks:** risks related to supply chain components, including key high-risk commodities, which support product development, manufacture, and company operations.
2. **Downstream value chain risks:** risks related to the application and use of a company's products or services. For example, risks to the financial sector through lending practices.
3. **Operational risks:** risks associated with employees and/or contract workforce, operational locations including factories and distribution centres, and overall working conditions.

The purpose of this assessment was to identify companies and sectors which present the highest overall concern related to human rights and modern slavery. The outcomes are used to inform our internal management strategies, including focused company engagement on these issues, further research, and required adjustments to the investment case.

Assessment overview

This assessment was completed using an in-house bespoke template including starting assumptions on industry and location risks from the Global Slavery Index, and then filled out using information from company disclosures.

The Global Slavery Index uses data from 2018 to identify regions and industries with the highest potential exposure to modern slavery and human rights risks considering the prevalence of human rights abuses, overall vulnerability of the population, and the extent of local Government response. Although the data is slightly outdated, it is currently the most comprehensive dataset available. For each company we completed the process outlined in Figure 13.

Figure 13. Our process to identify modern slavery risks across three key risk areas

Upstream Supply Chain

- Identified the potential or actual supply chain exposure to known high risk commodities like cotton, sugarcane, rice, silica and cobalt
- Adjusted the default industry risk to low, medium or high, depending on additional exposure from high risk commodities

Downstream Value Chain

- Considered the application of company products and services to aid modern slavery abuses and assigned a value chain risk level of low, medium or high

Operations

- Identified operational or asset locations across 142 high risk countries (Global Slavery Index)
- Confirmed exposure to contract or labour hire workforces
- Confirmed use of low-skilled workforce
- Assigned an operational risk level as low, medium or high

Note: Where we could not collect adequate information through disclosures or industry research we have assigned a temporary risk level and will aim to validate the exposure further through company engagement or research.

Key insights and outcomes

136 companies analysed across three key risks.

10% of companies have more than 15 operational assets in high risk regions.

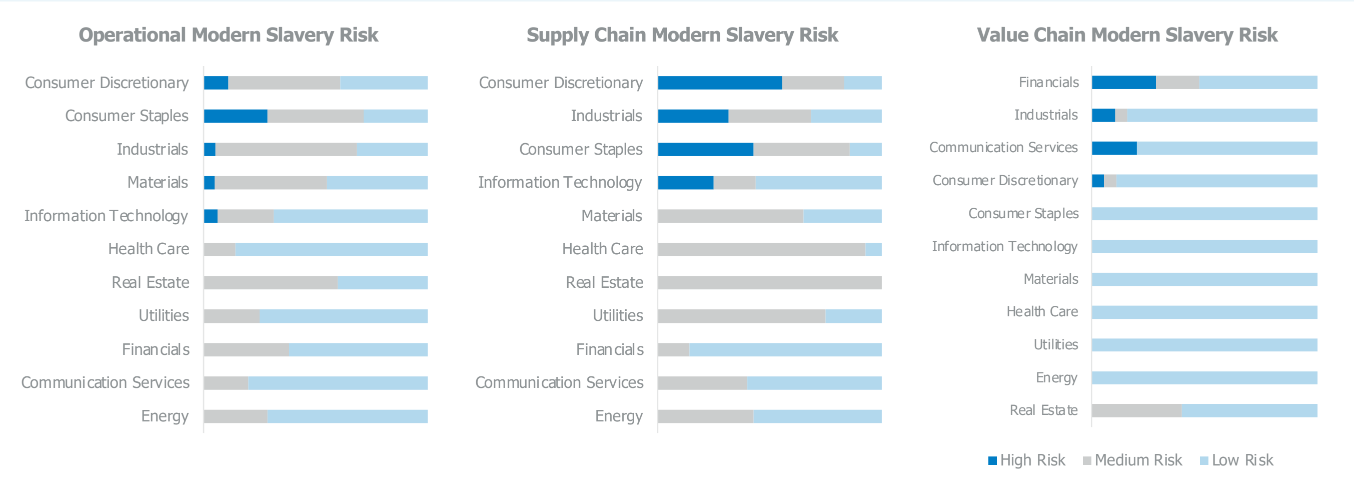
25% of companies present a high risk in at least one of the risk areas. Of these, **82%** have a modern slavery statement and/or policy in place.

10% of domestic and **17%** of global companies have a medium or high downstream value chain risk, an area not often addressed in existing Modern Slavery statements.

63% of companies have operational assets in a high risk region.

40% of companies are exposed to potential operational risk through contract or labour hire workforces.

Figure 14. Sector level outcomes across three risk areas (combined Australian and global equities)



The technology (including communications) and banking sectors are particularly exposed to downstream value chain risks through the possible use of their equipment and financial services to aid modern slavery or human rights violations. For example, there have been reports that sophisticated technology equipment is being used for mass-surveillance and control in the Xinjiang region in China.

Industrials, consumer discretionary, and consumer staples are the sectors most exposed to supply chain risks. This is largely due to the extensive supply chains, high reliance on factories in regions of concern and use of high-risk commodities like cocoa, fish, rice, and cotton.

Globally listed equities have a slightly elevated risk of human rights and modern slavery compared to Australian listed equities across all three risk categories. This is mainly because because of their global operations and scale.

Australian equities generally produce more detailed disclosures on modern slavery and human rights risks and management than global equities. We attribute this to the very detailed requirements of the Australian Modern Slavery Act.

Next steps

In FY22, we will complete this assessment methodology by including a set of best practice management indicators that aim to measure the quality and effectiveness of a company's response to modern slavery risks.

Example management indicators include, having a supplier code of conduct in place, the use of supply chain audits, integration of modern slavery risk management at Board level, and participation in industry initiatives to manage complex commodity supply chains.

CASE STUDY

Wesfarmers

GICS Sub-Industry: General Merchandise Stores

	Risk Exposure		Management
Supply Chain	High	High default industry risk; 12 known high-risk commodities in supply chain.	In the Australian context, Wesfarmers demonstrates strong transparency, and remediation practices. The well-known Wesfarmers' brands include Kmart, Target, Officeworks, and Bunnings. These brands procure high risk supplies from complex global networks such as low-cost goods, cotton garments or fabrics and construction materials. Wesfarmers is taking its responsibilities seriously, pairing comprehensive due diligence with transparency with regards to disclosing audit results and actions for remediation.
Value Chain	Low	Low risk of product application and use related to modern slavery.	To address its high supply chain risks, Wesfarmers has introduced a Risk Management Plan that facilitates third-party audits, a record of remediated non-conformances, factory lists across Tier 1, 2 and 3 suppliers, and an ethical sourcing program. This is accompanied by awareness training across both operations and suppliers.
Operations	Med	No high-risk locations; some reliance on contract workforce.	The product supply chains for all Wesfarmers' divisions have been disclosed in its statement under the Australian Modern Slavery Act. Wesfarmers went further to disclose the number of supplier audits (2066), the number of critical breaches (386 identified across 138 suppliers) and the remediation actions take (178 have action plans to remedy and 164 have concluded remediation). Through engagement we are encouraging the use of case studies for future reporting.

CASE STUDY

Daimler

GICS Sub-Industry: Automobiles & Components

	Risk Exposure		Management
Supply Chain	High	High default industry risk; 5 known high-risk commodities.	Daimler is striving for best practice in modern slavery due diligence regarding raw material procurement. A leader in EV technologies, Daimler procures components and services from ~60 000 direct suppliers based across Europe, North America, and Asia. Among the 10,000 raw materials sourced, lithium, mica and cobalt are examples of critical EV constituents with high modern slavery-related risks.
Value Chain	Low	Low risk of product application and use related to modern slavery.	Daimler has identified and disclosed raw materials and services whose use, extraction or further processing pose potentially critical human rights risk. Approximately 24% of these have currently been assessed with the aim of assessing 70% by 2025. The company's approach is to engage through projects in the local community, rather than abandon high risk regions such as the Democratic Republic of Congo.
Operations	Med	>9 high-risk locations; Some reliance on contract or low-paid workforces in factories.	Daimler has set itself apart on transparency and supplier collaboration, demonstrating industry leadership to address modern slavery in manufacturing. In 2020 it conducted 658 on-site audits. As these suppliers' service others, this action has flow on impacts to improve the whole industry. It requires all suppliers to fulfil human rights due diligence obligations in accordance with the UN Guiding Principles on Business and Human Rights.

ALPHINITY'S SUSTAINABLE STRATEGIES

Through our two dedicated sustainable strategies, we aim to invest in listed global and Australian equities that have the capacity to make a positive impact on our society in areas of economic, environmental, and social development by contributing towards the advancement of at least one of the Sustainable Development Goals.

Sustainable Thematics

- Sustainable Cities
- Inclusive Economies
- Healthy Lives
- Climate Action

Strongest SDG Alignment

Strongest Sector Alignment

- Industrials
- Health Care
- Materials
- Information Technology

SDG Analysis

Completed for 150 companies across domestic and global equities

Through our two dedicated sustainable strategies, we aim to invest in listed global and Australian equities that are **'doing good'**, by contributing towards the advancement of the UN's Sustainable Development Goals (SDGs), and **'doing it well'**, by having robust ESG management practices in place.

The SDGs were introduced by the United Nations on the 1st January 2016. These goals universally apply to all and aim to mobilise efforts to end all forms of poverty, fight inequalities and tackle climate change, while ensuring that no one is left behind.

These goals were primarily developed for use by governments, not-for-profit organisations, and industry bodies. In recent years however, the goals have gained significant traction with the investor and professional services community as a consistent language for sustainability, and to set clear sustainability priorities.

We use these goals as a framework for defining our sustainable universe. This includes assessing the positive and negative contribution of a company's products and services against each of the goals, and then determining if the company has an overall net positive or net negative alignment.

This process does not target a specific goal or set of goals, rather the objective is to invest in companies that have an overall net positive benefit considering alignment across any of the goals.

Once the universe is constructed, we then apply the exact same disciplined investment philosophy of looking for earnings leadership in this focused sustainable investment universe. We also actively assess and manage ESG risks in line with our overall approach to ESG integration.

In 2021 we launched the Alphinity Global Sustainable Equity Fund. This strategy is consistent with the approach used by the domestic Alphinity Sustainable Share Fund since 2017.

Both strategies have a similar Charter and Sustainable Compliance Committee in place to oversee governance, universe construction, and help inform company engagement. The committees include two external highly reputable independent experts and ensure we stay true to our Charters.

Reflections from an independent Sustainable Compliance Committee member

Elaine Prior

Sustainable Share Fund Compliance Committee member

Role of the Sustainable Compliance Committee

In late 2017, when Alphinity established an advisory committee to support its Australian Sustainable Share Fund (SSF), I was pleased to be asked to join the committee as one of two independent experts.

At the time, I was about to retire after a decade at Citi Research, where I was Managing Director specialising in ESG research on ASX listed companies for Citi's fund manager and superannuation fund clients. A major focus of my work since 2006 was at the intersection of climate change, company behaviour and investors. I was formerly a financial analyst covering mining and oil companies, a petroleum engineer working in the UK North Sea and Australia, and had a brief spell working on environmental aspects of Antarctic and Arctic tourism.

Between 2017 and 2020, I was joined on the committee by Mark Lyster, an experienced sustainability advisor who provided a wealth of valuable insights. I'm now joined on the Committee by Melissa Stewart, who commenced the role in September 2020. A qualified human rights lawyer, Melissa is a recognised industry expert in modern slavery and human rights, and for more than 20 years has held roles with the United Nations, Australian and international Governments, ASX-listed companies, and not-for-profits. She has advised governments and corporations on modern slavery, human rights and responsible operations, investments, and supply chains. Melissa's practical expertise in modern slavery and human rights adds deep insights into our expectations of, and engagements with, investee companies on these issues.

The committee was set-up following a decision by the Alphinity team to advance its approach to sustainability and relaunch an existing Responsible Investment fund (which used exclusions for key activities like tobacco and gambling) to also exclude fossil fuels and focus on finding and investing in companies that contribute to the themes of the UN's Sustainable Development Goals (SDGs).

These global goals aim to tackle disadvantage and the most pressing environmental challenges. They include a focus on poverty and inequality, health, sustainable production and consumption, biodiversity, water, waste, and climate change.

The role of the new Committee was firstly to assist Alphinity in formulating the Charter for the SSF and constructing the investable universe for the fund. We also embarked on what has becoming an evolving exercise—assessing companies' alignment with the SDGs.

Since its launch, the SSF has grown substantially, as investors increasingly seek investments that reflect their values as well as their financial objectives.

In June 2021 Alphinity launched its second sustainable strategy called the Alphinity Global Sustainable Equity Fund. This strategy has been set up to mirror the SSF approach, and as such, I am pleased to also be a part of that fund's Sustainable Compliance Committee.

Sustainable investing

Over the past two decades investors around the world have increasingly considered the Environmental, Social and Governance (ESG) performance of investee companies, and some funds also screen out controversial and harmful activities. While important, the ESG approach tends to focus mainly on how a company operates.

At Alphinity, in addition to considering a company's ESG performance, we focus more explicitly on what a company does. We still apply exclusions for activities which are incongruent with the pursuit of the SDGs, but we also explicitly favour companies that help to advance the objectives of the SDGs. This is an evolving space for the global investment industry.

Alphinity has pioneered and continues to evolve its approach to evaluating companies' contributions to the SDGs. While we draw on external analysis by research providers and other external sources, we have increased our own in-house capacity with the appointment of an ESG and Sustainability Manager and analyst. Our proprietary framework for assessing SDG alignment incorporates our views of both what companies do and how they do it.

There are always grey areas, and companies (or their industries) are rarely, if ever, perfect. One role of the Compliance Committee is to bring a range of perspectives to the debate about whether a company fits within the Charter of the SSF and can be included in our investment universes.

For example, we debated where to draw the line on fossil fuels and their ancillary industries, and what mining activities fit the spirit of the fund. We decided to exclude pure gold mining, but to include other commodities such as copper and iron ore as these are necessary for sustainable infrastructure and for a decarbonised world.

We are always prepared to revisit our decisions. We eliminated our exposure to gas as we became less convinced about the merits of 'gas as a transition fuel', and more concerned about the economics of new long-life gas projects. As expectations for sustainability performance rise, and practices and technologies improve, we expect more from our portfolio companies.

Our meetings with investee companies and potential investments allow us to explore sustainability issues in more depth, express our view on the importance of an issue, share our concerns, or encourage positive change. At times, Alphinity has successfully encouraged investee companies to increase their sustainability disclosures. During the past year, topics we have discussed with companies include climate change management and emissions reduction strategies, modern slavery, supplier relationships, heritage, social licence to operate, waste reduction, and mitigation of bribery risk. Our engagements with companies help to inform decisions made by Alphinity's larger funds, as well as the dedicated sustainable funds.

It's an exciting time to be a participant in the sustainable investment industry. Individuals and superannuation funds increasingly want to see their investments aligned with their values. This supports the evolution of sustainable investment products that tackle real world challenges and helps to encourage companies to operate more sustainably to remain relevant to investors.

Alphinity looks forward to continuing to evolve its sustainable investment products, engage with companies to support and encourage positive change, and participate in collaborative initiatives that aim to address some of society's major challenges.

Using the UN Sustainable Development Goals to invest sustainably

History of Alphinity's sustainable funds

Alphinity took over a responsible investment fund, previously run by Challenger, in 2010. In 2017 following the release of the United Nations Sustainable Development Goals (SDGs), the fund was reshaped to build on the traditional approach of using negative filters to exclude harmful activities, to a positive approach of finding companies that are actually 'doing good'.

The idea of 'doing good' is based on how a company's products and services aligns with the SDGs. In 2017, using research from the market-leading Citigroup ESG research team, a methodology was developed to consistently assess the positive and negative contribution of a company's products and services against the goals.

A Sustainable Share Fund Compliance Committee was also established to support the governance of the fund, help the investment team to work through grey-areas, and support company engagement. This Committee includes two external independent experts who oversee the Fund's universe construction.

In 2020, Alphinity added two people dedicated to ESG and Sustainability with the aim to enhance the overall assessment approach and manage the growing demand for ESG and sustainability insights from clients.

In 2021, we extended our sustainable investing capacity by launching the Alphinity Global Sustainable Equity Fund. This fund utilises the same SDG assessment methodology and overall approach as the domestic Alphinity Sustainable Share Fund, including a dedicated Sustainable Compliance Committee with two independent ESG and Sustainability experts.

Figure 15. History of the Alphinity sustainable funds

2010

2021

2010

Alphinity launches their first responsible investment (RI) fund to the market

2016

The UNSDGs come into force

2017

Alphinity reshapes the RI Fund to align with the UNSDGs. The fund is rebranded as the Australian Sustainable Share Fund

2017

The first Sustainable Compliance Committee is put in place

2017

Alphinity used research by the market-leading Citigroup ESG team to develop a sustainability assessment methodology aligned with the SDGs

2020

Alphinity appoints their first dedicated ESG and Sustainability Manager

2020

The ESG and Sustainability Manager takes over responsibility for the SDG analysis and assessment methodology

2021

The Global Sustainable Equity Fund is launched in June 2021

Key components of our sustainable strategies

SDG AND ESG ANALYSIS

Analysis of company ESG disclosures and financial information to confirm net positive alignment with the SDGs and strong ESG management practices

EXCLUSIONS

Exclusion criteria for activities that are incongruent with the SDGs including; fossil fuel production, addictions, controversial weapons, predatory lending & pornography

SUSTAINABLE COMPLIANCE COMMITEE

Sustainable Compliance Committees including two external experts in place to ensure compliance with the fund Charters and approve the sustainable universes

ALPHINITY INVESTMENT PROCESS

Once the sustainable universes are approved, the investment team constructs their portfolio using the Alphinity Investment Process

ACTIVE ENGAGEMENT

Ongoing company engagement is important to confirm ESG & SDG aspects which cannot be confirmed through reporting, manage controversies, and encourage better sustainability outcomes

Why the SDGs?

The SDGs were introduced by the United Nations on the 1st January 2016. These goals have a universal application and aim to mobilise efforts to end all forms of poverty, fight inequalities and tackle climate change, ensuring that no one is left behind.

These goals were primarily developed for use by Governments, not-for-profit organisations, and industry bodies. However, in recent years the goals have gained significant traction in the investor and professional services community as a consistent language for sustainability, and as a way to set clear sustainability priorities.

Even with this growing interest and use, there is currently no investor standard as to how the goals should be applied. However, we still believe they are the most suitable framework because:

- they are **globally recognised** and supported by governments, industry bodies, companies, and communities all around the world
- they cover **environmental and social themes**, with a focus on equality and reducing the potential impacts of climate change
- the framework includes a clear set of goals with **169 individual indicators** to help assess a company's activities
- they can be **easily interpreted** to apply to activities, products, and services of listed equities.

Sustainable investment process

The sustainable strategies aim to invest in companies that have strong ESG management practices in place, align positively with SDGs, and have the potential to deliver strong financial returns (Figure 16).

1. SDG Analysis: Determining revenue alignment with the SDGs

We use the United Nations Sustainable Development Goals as a framework for assessing a company's suitability for inclusion in our domestic or global sustainable universes.

To identify the net alignment of an individual company, we review corporate ESG and financial disclosures, and use insights gained through engagement to determine positive and negative alignments across the various goals.

When determining alignment with the goals, we focus on a company's products and services (using the respective revenue splits) rather than operational ESG practices. We also align revenues using the SDG indicators that underpin the 17 high level goals, as this provides greater insight and clarity to the intent of the goals and therefore requires less interpretation.

To reflect the strength of each segment's alignment with the various goals, we also apply a materiality factor. We assign a materiality of low, medium, or high and incorporate this as a multiplier into the score. A low materiality uses a multiplier of 33%, medium is 66% and high is 100%.

An illustrated example of the process and score calculation is shown below (Figure 17).

2. Excluded Activities

For activities that we have determined to be incongruent with the SDGs, for example fossil fuel production, we have a number of exclusions with various revenue thresholds that are applied during universe construction. A full list can be viewed in the Funds' Charters here.

Figure 16. Company requirements for inclusion in the domestic or global sustainable funds

Figure 17. Costa Group SDG analysis example

Costa Group is Australia's leading grower, packer and marketer of premium quality fresh fruit and vegetables.

Through its products, it delivers strong social benefits for Australian and international communities aligned with SDG2, SDG3 and SDG10. The SDG10 alignment is only related to its farms and logistics segment and specifically benefits small scale growers and producers who sell their products through Costa's markets.

Growing and selling fruit and vegetables requires water use and some packaging. Although these areas are well managed by the company, these impacts have been represented through the negative alignment with SDG6 and SDG12 respectively.

Costa Group have a final net positive SDG alignment score of 106%.

Costa Group products & services	Segment (revenue %)		SDG alignment					
				SDG	Indicator	Materiality	Score	Result
	Produce	(76%)	+	2	2.1 & 2.2 End hunger, support access to safe and nutritious food	(High)	76% x 100% = 76%	126% - 75% = 51% **Net Positive**
			+	3	3.4 Reduce mortality rates [healthy eating]	(Medium)	76% x 66% = 50%	
			-	12	12.5 reduce waste and resource use [packaging/plastics]	(Low)	-76% x 33% = -25%	
			-	6	6.1 & 6.4 achieve water efficiency [embodied water use]	(Medium)	-76% x 66% = -50%	
	Costa Farms and Logistics	(13%)	+	2	2.1 & 2.2 End hunger and access to safe and nutritious food	(High)	13% x100% = 13%	13% + 9% + 13% = 35% **Net Positive**
			+	3	3.4 Reduce mortality rates [health eating]	(Medium)	13% x 66% = 9%	
			+	10	10.1 & 10.2 inclusion for all [access to individual growers and sellers to their markets]	(High)	13% x 100% = 13%	
	International	(12%)	+	2	2.1 & 2.2 End hunger, support access to safe and nutritious food	(High)	12% x 100% = 12%	12% + 8% = 20% **Net Positive**
			+	3	3.4 Reduce mortality rates [healthy eating]	(Medium)	12% x 66% = 8%	

3. Assessing ESG management practices

We assess a company's operational ESG management practices in line with our ESG integration process described on page 13.

The degree of risk (both threats and opportunities) related to ESG is considered on an ongoing basis, and where relevant can influence a decision to include or exclude a company from the sustainable funds' investible universes. These factors may also influence portfolio construction and overall investment decisions.

4. Approval from the relevant Sustainable Compliance Committee

The two Sustainable Compliance Committees (Figure 18) are responsible for overseeing the SDG and ESG company analysis, and approving the domestic and global sustainable universes.

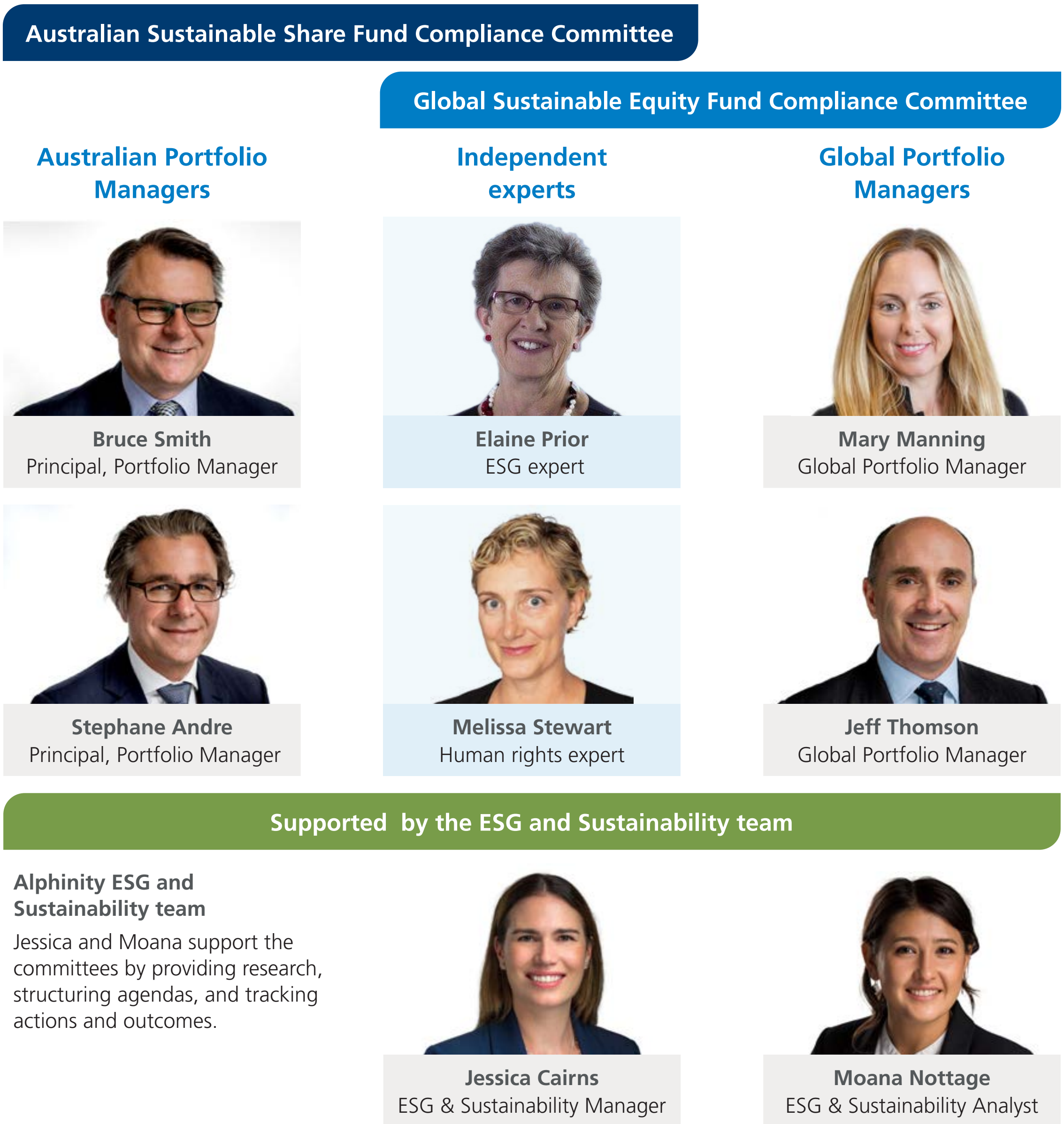
Both committees include the relevant two Portfolio Managers and the same two external experts.

The committees are supported by the Alphinity ESG and Sustainability team, Jessica and Moana, who typically chair the committee meetings and provide research and inputs to assist the committee in their role.

Elaine Prior and Melissa Stewart both have extensive expertise in ESG and sustainability and along with their role to approve the sustainable universes, they also provide ongoing advice on company engagement priorities, industry trends, global policy changes, and key issues worth further research and explorations.

Appendix 3 includes further details on Elaine and Melissa's background and experience.

Figure 18. Sustainable Compliance Committees

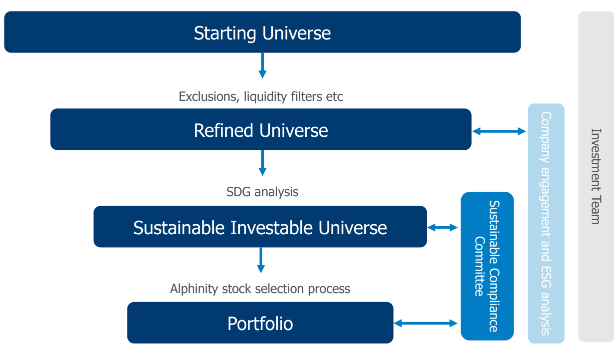


5. Construct a balanced portfolio

Once companies have been approved by the respective Sustainable Compliance Committee for the universe, we apply the same disciplined investment philosophy of all other Alphinity funds: looking for earnings leadership (Figure 19).

Ultimately stock selection for inclusion in the portfolio is made from the defined universe by the investment team applying the Alphinity investment process. All stocks in the portfolios will have a net positive SDG alignment and strong ESG practices because this is a requirement of the sustainable universe construction.

Figure 19. Sustainable investment process



FY21 SDG alignment outcomes

Since taking the SDG analysis in-house in 2020, we have completed the analysis process for more than 150 companies.[8] This includes all 92 companies that were held across our sustainable strategies during FY21, companies which were assessed for broader research and comparative purposes, as well as best research ideas from the investment team.

The SDG analysis is completed by the internal ESG and Sustainability team, in consultation with the respective investment analyst, and is vetted by the appropriate Sustainability Committee. This analysis is informed by company disclosures (financial and ESG documents), insights gained through company engagement, and independent research.

A range of insights are presented on the following pages of this report. The results represent the SDG alignment of companies held during FY21 across our sustainable strategies and highlights the key similarities and differences between the domestic and global funds.[9]

Naturally, the SDG contribution of a portfolio depends on the company specific SDG positive and negative alignment, but also portfolio construction aspects such as sector exposures. We have therefore analysed the SDG contribution of our portfolio's using four key methodologies:

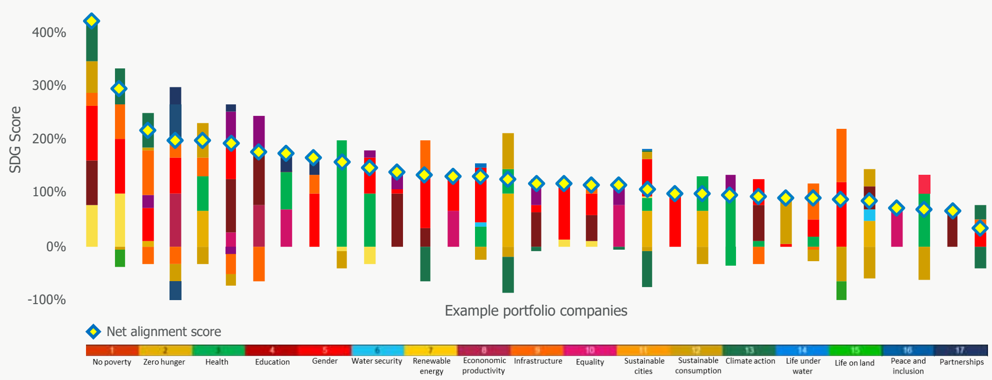
Positive SDG alignment	Company revenues aligning positively to SDGs using the SDG analysis methodology described previously.
Negative SDG alignment	Company revenues aligning negatively to SDGs using the SDG analysis methodology described previously.
Net SDG alignment	Sum of all positive and negative SDG alignments to generate net scores. See the Costa Group worked example above.
Sector alignment	SDG contribution of companies held in the in the portfolio by sector, calculated using average holding weights and company SDG alignment.

All holdings and respective SDG alignments are available in Appendix 4.

Internally, the SDG analysis and various outcomes (for example, the graphical representation shown as Figure 20), are used to:

- confirm a company's suitability for inclusion in the appropriate sustainable universe;
- inform discussion in the Sustainable Compliance Committee meetings; and
- identify company engagement objectives and priorities, especially where negative alignment is identified.

Figure 20. Example portfolio level SDG analysis



8 Analysis completed for 70 domestic and 80 global companies in FY21.

9 Representative domestic and global sustainable portfolios created for FY21 holdings using an average of end-of-month weights given the variance in company holdings across the year.

Figure 21. Positive SDG contribution and sustainable thematics

The overall positive SDG alignment of the domestic and global sustainable strategies covering all companies held during FY21. The figure highlights ten SDGs and four key sustainability themes that our portfolios have contributed to most strongly over the year. Page 59 contains case studies for select companies included in the graphic below.

Sustainable Cities
Companies that transform our cities and deliver the infrastructure critical for a sustainable future.

Inclusive Economies
Companies that reduce poverty and improve overall inclusivity of economies through access to information, services and finance.

Healthy Lives
Companies that support the healthy lives of communities and provide healthcare systems that are fair and equal.

Climate Action
Companies that proactively reduce carbon emissions and address the impacts of climate change.

	Sustainable Cities	Inclusive Economies	Healthy Lives	Climate Action
Industry alignment	Industrials, information technology, materials, resources	Financial services, information technology, communications, education	Agriculture, consumer staples, consumer discretionary, health care	Utilities, energy, resources, industrials, agriculture
Relevant SDGs	9 Industry, innovation and infrastructure; 11 Sustainable cities and communities; 12 Responsible consumption and production	1 No poverty; 8 Decent work and economic growth; 10 Reduced inequalities	2 Zero hunger; 3 Good health and well-being	7 Affordable and clean energy; 13 Climate action
Example companies held in FY21	Trane Technologies, Schneider Electric, Lifestyle Communities, Ball, Otis, BlueScope, Infineon, Iluka	AIA, Mercado Libre, Microsoft, SVB, QBE, Liberty, Qantas, Google	Sonic Healthcare, Daimler, HCA Healthcare, CSL, ResMed, DSM, Cochlear, United Healthcare	Lynas Rare Earths Ltd, Fortescue, Vestas, Schneider Electric, John Deere, New Energy Solar, OZ, fluence

Portfolio weight contributing positively to relevant SDGs

	SDG 9	SDG 11	SDG 12	SDG 1	SDG 8	SDG 10	SDG 2	SDG 3	SDG 7	SDG 13
Domestic	58%	37%	7%	32%	40%	17%	15%	22%	18%	18%
Global	67%	13%	13%	10%	36%	19%	15%	34%	12%	6%

Note: The portfolio weighted contribution is calculated using the average monthly holding weights for each company across the year.

Strongest net alignment to the SDGs

Across the domestic and global sustainable funds, there are four SDGs where the companies we held in FY21 had the highest overall contribution:

1. **SDG3 Good health and well-being:** Ensure healthy lives and promote well-being for all at all ages
2. **SDG8 Decent work and economic growth:** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
3. **SDG9 Industry, innovation, and infrastructure:** Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation
4. **SDG11 Sustainable cities and communities:** Make cities and human settlements inclusive, safe, resilient, and sustainable

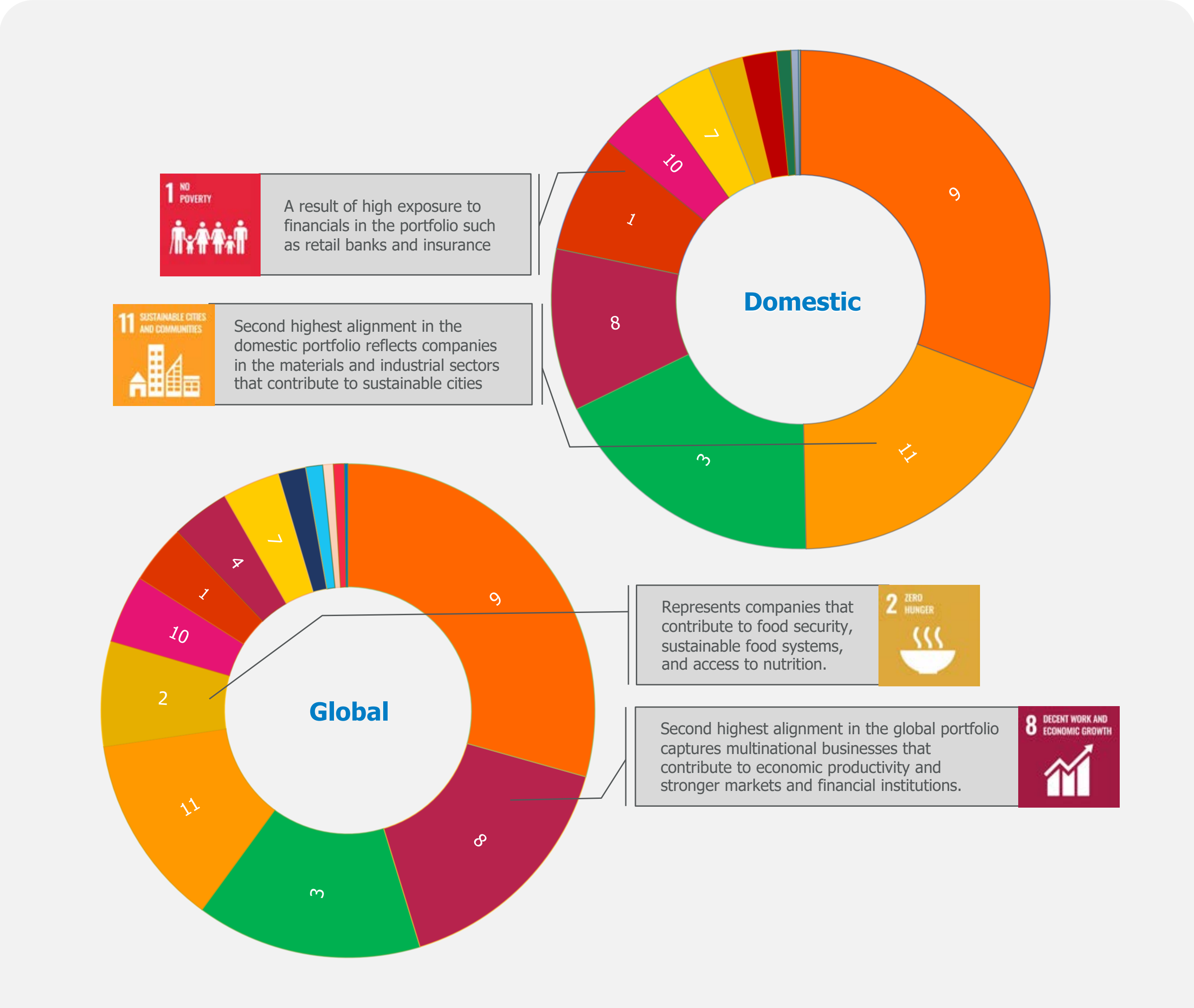
Figure 22 highlights the total net alignment across the SDGs for our two sustainable strategies: the Alphinity Sustainable Share Fund (Domestic) and the Alphinity Global Sustainable Equity Fund (Global).

Net alignment accounts for the positive and negative contributions towards each goal.

98% of companies held during FY21 positively align to at least one of these four goals.

Figure 22. Key observations of Australian and global net alignment to the SDGs

Taking into account the total net SDG alignment for all FY21 holdings for each fund, the domestic companies contribute more to **SDG1** and **SDG11** while the global companies have a stronger alignment to **SDG2** and **SDG8**. Both **SDG3** and **SDG9** demonstrate consistent exposure across both funds.



Key similarities in SDG alignment between domestic and global sustainable strategies:

3 GOOD HEALTH AND WELL-BEING Good health and well-being is a part of many company strategies, from food systems and nutrition, fitness and insurance services to health care services.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE Many companies across sectors support SDG9, from the development of sustainable and resilient infrastructure, to innovation and research, to investment in clean, digital and efficient industrial processes.

8 DECENT WORK AND ECONOMIC GROWTH Economic productivity and growth is a fundamental benefit of technology companies, diversified financials, investment managers, and companies that participate in e-commerce or logistics.

11 SUSTAINABLE CITIES AND COMMUNITIES Companies support sustainable cities and communities through more efficient resources, sustainable infrastructure and materials, reduced pollution and sustainable transport systems.

Positive SDG alignment

Domestic

- Of the domestic holdings, strong alignment to **SDG9** and **SDG11** is largely a result of exposure to companies engaged in the materials and industrials sectors offering services in sustainable infrastructure and development (for example, Fortescue Metals Group, Lifestyle Communities, Reliance Worldwide, Fluence, and Lynas).
- We also have strong exposure to the health care sector which is reflected through our alignment to **SDG3**. Companies which contribute towards this alignment include CSL, Sonic Healthcare, Ramsay Healthcare and Fisher & Paykel Healthcare.
- The alignment to **SDG8** reflects technological innovators and diversified financials or industrials that support capital flows through the economy (for example, Transurban, Qantas and National Australia Bank).
- The alignment to **SDG1** also reflects our positions in Australian banks and diversified financials such as Macquarie and QBE insurance.

Global

- The global holdings for FY21 also strongly align to **SDG9** and **SDG11**. Like domestic, this is mainly due to the strong exposure to industrials, however, is also supported by companies in the information technology sector. Companies that align strongly here include Schneider Electric, Trane Technologies, ASML, Nvidia and Infineon.
- The strong alignment with **SDG8** is largely due to the high exposure to multinational technology and industrial innovators like Microsoft, Google, and Nvidia.
- Across the global holdings, we have a slightly lower sector exposure to health care compared to domestic. However, in contrast, the strong **SDG3** alignment is further driven by sectors outside of health care. For example, AIA, which is a financial stock, provides life and health insurance; HelloFresh and Nomad foods, which are consumer stocks, support healthy eating; and Nike, another consumer stock, improves fitness and well-being.
- The alignment to **SDG2** is due to our exposure to companies that support food availability (for example, Nomad Foods, DSM, and HelloFresh).

Negative SDG Alignment

When assessing company revenue exposure across the SDGs, it is important to extend the positive lens and acknowledge the negative alignment as well.

Most companies have some degree of negative alignment. If that alignment is not balanced by stronger positive alignment, resulting in a net negative score, the company would not be accepted into the sustainable universe.

There are three SDGs where negative alignment is most common:

- **SDG6 Clean water and sanitation:** Products which use signficant amounts of water in production (for example, rare earth production).
- **SDG12 Responsible consumption and production:** Products or services which encourage excess consumption and waste (for example, sale of consumable products such as fashion items, waste generated from construction or packaging).
- **SDG13 Climate action:** Products or services which have a significant:
  - upstream emissions footprint (for example, data centres and energy intensive industries); or
  - downstream footprint (high-emitting products such as heavy vehicles, mined commodities, or airlines).

Generally where we identify negative SDG alignment, we seek to identify strong operational management measures and commitments that may offset the negative impact over time. For example, when companies exhibit negative alignment to **SDG13**, we review any relevant climate change disclosures, seek to engage, and preferably confirm clear commitments to reduce emissions in line with the Paris Agreement.

Where a company does not have clear commitments in place to mitigate the negative impact, we will consider the implications on a case by case basis with the Sustainable Compliance Committee. Depending on the situation the result might be to exclude the company from the relevant universe, or continue engagement to encourage better management and keep track of developments in the space.

Gaps in SDG alignment

Across the companies held in FY21, there are certain SDGs where there are gaps in our alignment. These include:

- **SDG5 Gender equality:** Achieve gender equality and empower all women and girls
- **SDG16 Peace, justice, and strong institutions:** Promote peaceful and inclusive societies for sustainable development
- **SDG17 Partnerships for the goals:** Strengthen the means of implementation and revitalise the Global Partnership for Sustainable Development

Across our holdings there are many companies taking part in valuable initiatives that support the SDGs listed above, however, these are generally characterised as operational ESG management measures (for example, workforce diversity and inclusion) and are therefore not measured through the SDG analysis.

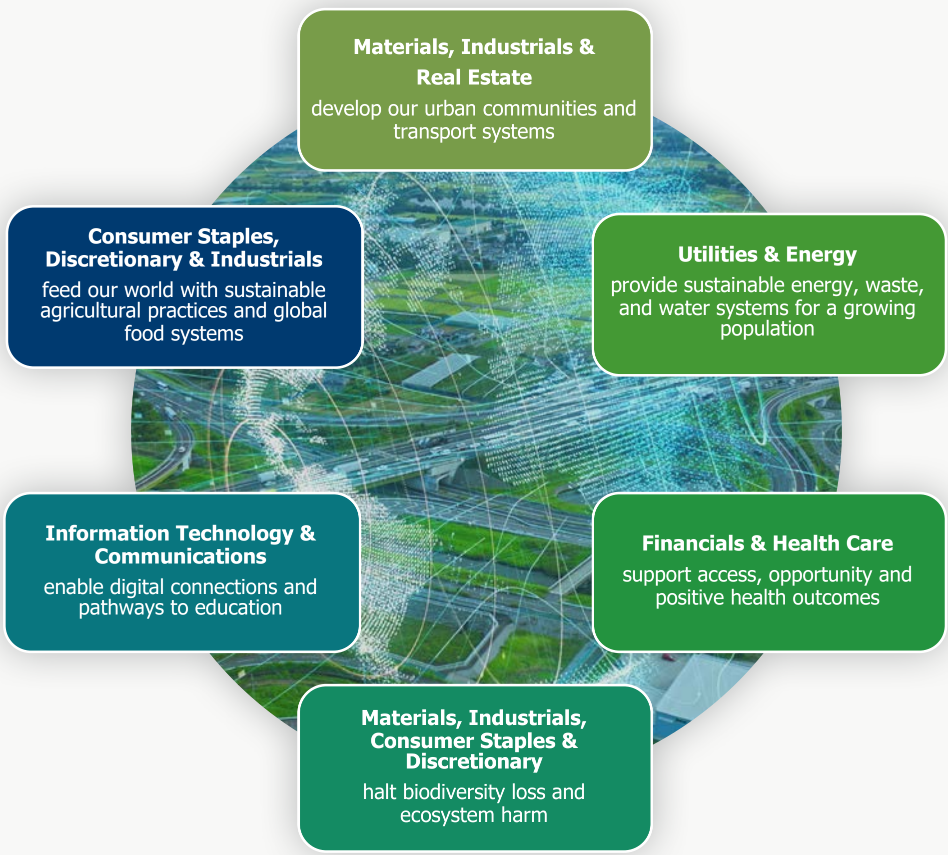
Of our FY21 holdings, one company aligned from a product and service perspective to **SDG5**: Nike due to its range of clothing and equipment specifically targeted at women's equality. Two companies are aligned with **SDG17**: Google for facilitating information sharing related to sustainable development; and AIA Group supporting financial security in developing markets.

The limited alignment with **SDG16** is because the goal supports peace, justice, and strong institutions which most listed companies would find difficult to address. This goal is more relevant to regulatory bodies and organisational collaboration rather than holding a clear alignment to company revenues.

Sector insights

Each sector has a role to play in creating sustainable solutions that align with the SDGs.

Figure 23. Sector sustainability benefits



Sector contributions to FY21 SDG outcomes

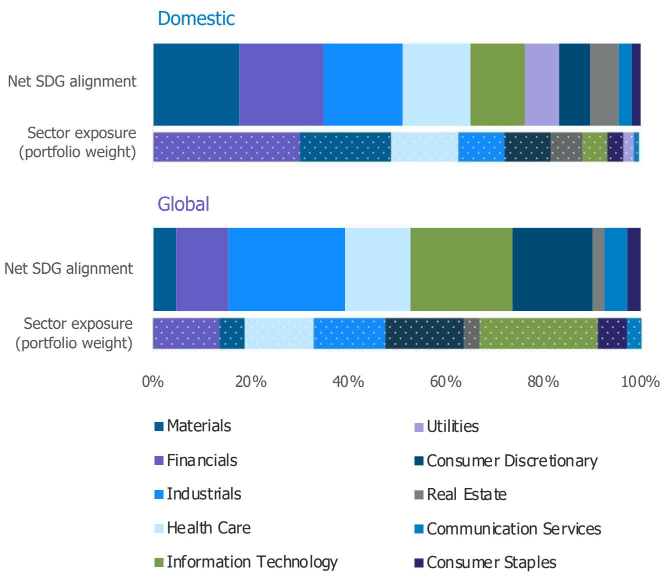
Overall, there are four sectors which have contributed most significantly to our FY21 SDG alignment outcomes across both funds: Industrials, Health Care, Financials, and Information Technology.

The SDG contribution of sectors is largely influenced by two factors, the SDG alignment of companies held in the portfolio and the sector weights of the funds. Figure 24 illustrates how the sector SDG contributions differ by strategy with:

- Domestic holdings in the materials, financials, industrials and health care sectors providing the highest contribution to the SDG outcomes; while
- Global holdings in the industrials, information technology, health care and consumer discretionary sectors show highest contribution to the SDG outcomes.

Notably, Figure 24 also demonstrates how strongly companies in certain sectors align to the SDGs. For example, the financials sector made up a large part of the domestic Alphinity Sustainable Share Fund throughout FY21. However, because these companies generally have a lower overall SDG alignment this sector represents a lower SDG contribution compared to others. Conversely, the SDG contribution of industrials is strong across both strategies as companies in the sector demonstrate a higher overall SDG alignment.

Figure 24. Comparison of SDG contribution by sector to relative portfolio exposures.



Note: Average end-of-month weights used to calculate sector exposures.

10 Net SDG alignment divided by the number of companies held in each sector.

Average sector alignment

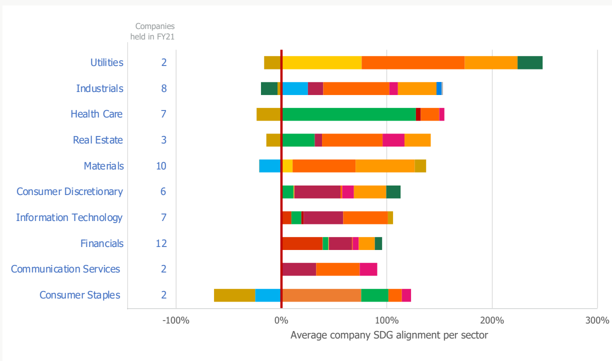
Taking into account our observations of company alignment differing in certain sectors, we show the average net SDG alignment[10] by sector in Figure 25. Once the sector exposure from the portfolio is removed, the companies with the strongest SDG alignment generally are from the communication services, utilities, industrials and health care industries.

In line with our previous observations, on average the financial companies have a weaker alignment than most other sectors. Meanwhile, the average industrial company displays a stronger overall contribution to the SDGs with notable alignment to **SDG9** and **SDG11**.

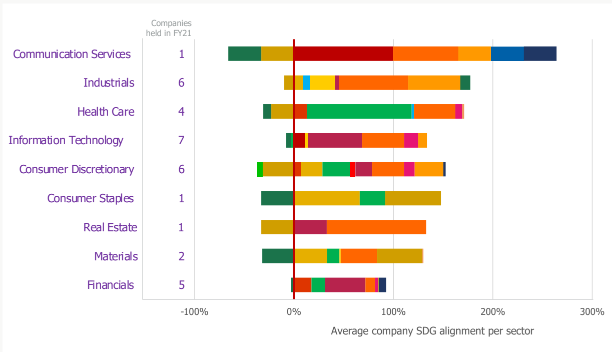
This analysis only uses data from companies we have owned throughout the period, so it is not representative of the sectors more broadly. Nonetheless, it provides a valuable indication of which sectors may contribute more strongly towards the SDGs than others.

Figure 25. Average net SDG alignment by sector and the number of companies held during FY21.

Domestic



Global



Domestic and global sustainable company examples

Sustainable Cities: Companies that transform our cities and deliver the infrastructure critical for a sustainable future

Global Equities

Ball Corporation: Infinitely recyclable aluminium for a sustainable beverage package

Positive alignment	9 Industry, innovation and infrastructure; 12 Responsible consumption and production
Negative alignment	N/A

An American company enabling a truly circular economy, Ball Corp leads the way in the innovative recycling of aluminum packaging.

The aluminum that contains your beverage, personal care and household products today are close to 100% recycled. The metal holds the specialist properties to remain in the recycling system infinitely. Sourcing primary aluminum, on the other hand, is more energy-intensive and comes at a substantially higher cost. As such, aluminium is the superior material to recycle in contrast to glass and plastic and demonstrates clear sustainability benefit and alignment to **SDG9** and **SDG12**.

Ball was the first can maker to have had its GHG reduction plan approved by the SBTI in line with a 1.5-degree scenario, committing to 100% of North American operations to be addressed by renewable energy projects.

Infineon: Microelectronics creating an efficient world in the digital age

Positive alignment	7 Affordable and clean energy; 9 Industry, innovation and infrastructure
Negative alignment	N/A

Infineon view global challenges as the motivation to develop innovative digital products and systems that make our world safer and greener world. Primarily a semiconductor business, Infineon are addressing key market trends such as energy efficiency, mobility, the Internet of Things and Big Data (**SDG7** and **SDG9**). The products also enable the integration of renewable energy sources such as wind and solar into our grids, and the industrial power controls support charging stations for electric vehicles.

These make our technology driven systems more energy efficient and thus reduce power-loss in network systems. As our population and urban environments grow, this is paramount in our journey to net zero where avoiding energy use should be the priority over the purchase of carbon offsets.

Infineon's ESG management practices are well established within the business, and have committed to net zero by 2030 with an interim target to cut emissions by 70% by 2025 (2019 baseline).

Domestic Equities

Lifestyle Communities: Supporting affordable housing and community living for an aging population

Positive alignment	3 Good health and well-being; 9 Industry, innovation and infrastructure; 10 Reduced inequalities; 11 Sustainable cities and communities
Negative alignment	N/A

Lifestyle Communities is a business for purpose. Its mission is to enable working, semi-retired and retired people to maintain independence, build social connections and feel content to downsize at an affordable price – a differentiated model to the stock standard retirement village.

The company is responsible for owning and operating these residential communities for Australians over 50 (**SDG9** and **SDG11**). The focus is on health and wellness, providing facilities such as club houses, pools, gardens and outdoor recreation that homeowners can enjoy and socialise over. The mental and physical developments from such participation are key to a strong, happy and healthy aging population (**SDG3**).

Iluka: Heavy mineral sands provide resources critical to our modern economy

Positive alignment	9 Industry, innovation and infrastructure; 11 Sustainable cities and communities
Negative alignment	6 Clean water and sanitation

A global producer of zircon and rutile, Iluka is increasingly producing Rare Earth elements. These products are used in a growing array of applications around the world including ceramics, pigments, coatings and wind turbines and new energy (**SDG9** and **SDG11**).

Zircon-containing products on buildings address the concerning heat island effects in our cities, while titanium enhances the durability and lifetime of our urban settings.

In terms of responsible mining, Iluka works with communities to improve regional developments and protect cultural heritage and the environment. The company's Aboriginal employment has increased to 7% across the group, with close to 30% at some operations in South Australia. Focusing on maximising the reuse of water in the mining process (**SDG6**) Iluka reports on its water footprint and water recycling. Waste and water measurement metrics are to be released in 2021.

Inclusive Economies: Companies that reduce poverty and improve the overall inclusivity of economies through access to information, services and finance

1 NO POVERTY | 8 DECENT WORK AND ECONOMIC GROWTH | 10 REDUCED INEQUALITIES

Global Equities

MercadoLibre: Democratising consumption and finance in Latin America

Positive alignment	1 NO POVERTY; 8 DECENT WORK AND ECONOMIC GROWTH; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 10 REDUCED INEQUALITIES; 17 PARTNERSHIPS FOR THE GOALS
Negative alignment	11 SUSTAINABLE CITIES AND COMMUNITIES; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Born with the purpose to democratise commerce and equalise the opportunities between large companies and small entrepreneurs, MercadoLibre (MELI) has built the largest e-commerce and payments eco-system in Latin America.

By facilitating e-commerce and fintech services, MELI is reducing poverty and supporting digital and financial inclusion for individuals and small businesses in a somewhat underserved market (**SDG1**, **SDG8** and **SDG10**).

MELI has a number of initiatives in place to manage the negative consumption impacts of the e-commerce business (**SDG11** and **SDG12**). The company uses 100% FSC certified cardboard made up of at least 40% recycled content and committed in 2021 to purchase 100% renewable energy for its largest distribution centres in Brazil and Mexico.

It is clear that the financial inclusion and social benefits MELI provides for small scale sellers and the Latin American economy, outweigh the negative impacts of packaging and waste inherent in such a business.

Microsoft: Global technology leader supporting business and education

Positive alignment	4 QUALITY EDUCATION; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES
Negative alignment	13 CLIMATE ACTION

Microsoft's cloud-based software solutions have transformed the way businesses, education providers, and individuals communicate and approach work. These solutions improve access to education, support more productive economies, and reduce inequalities of outcome for people in remote or disadvantaged parts of our society (**SDG8**, **SDG10**, and **SDG4**).

Microsoft are well-known as a leader in ESG management. It has a strong focus on environmental and social sustainability and has been certified as carbon neutral since 2012 (with the use of offsets).

Microsoft has pledged to be carbon negative by 2030, but due to the power required at its datacentres the company has a relatively high direct carbon footprint (**SDG13**). To manage this, it has committed to 100% renewable energy by 2025 and will invest $1 billion over the next four years to help increase the development of carbon reduction and removal technologies.

Domestic Equities

Liberty Financial Group: Access to finance through responsible lending

Positive alignment	1 NO POVERTY; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES
Negative alignment	N/A

Liberty Financial Group are advocating that individuals and small businesses can access capital in a responsible manner, yet through a quick turnaround time.

A leading non-bank lender, Liberty provide home, car, business, and personal finance paired with free-thinking solutions at competitive prices to provide customers with greater choice in the financials space.

Its innovative technology and data-driven approach to financing supports quicker turn-around times and sustainable access to finance for members of the community who might otherwise struggle to access these services (**SDG1**, **SDG8** and **SDG10**).

Liberty is the first financial organisation in Australia to be certified by B Corporation. This certification demonstrates it is a business that meets the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose.

Qantas: Facilitating the safe migration of people in Australia and globally

Positive alignment	8 DECENT WORK AND ECONOMIC GROWTH; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 10 REDUCED INEQUALITIES
Negative alignment	13 CLIMATE ACTION

Qantas is one of Australia's oldest brands. Efficient and sustainable air travel supports resilient economies (**SDG9** and **SDG8**), mobility and connection of people, access to global opportunity (**SDG10**), and personal health and well-being.

Qantas are playing a key role in ensuring that the future of air travel can fit within a low carbon world. It has made a net zero pledge, committed to invest $50 million over the next 10 years towards the development of a viable sustainable aviation fuel industry in Australia, and are actively upgrading the fleet to more energy efficient models.

Qantas also has a focus on reducing waste. In 2019, it operated the first ever commercial no waste to landfill flight. Through the COVID-19 pandemic Qantas have been proactively working with the Australian Government to provide ongoing support to employees who are unable to work during this time.

Healthy Lives: Companies that support the healthy lives of communities and provide healthcare systems that are fair and equal

Global Equities

DSM: Driving a sustainable future through science and research

Positive alignment

Negative alignment

DSM is a global purpose-led, science-based company researching and investing in solutions tackling global challenges such as climate change, food quality and shortages and restoring a biobased circular economy. It has three core businesses: nutrition and health (**SDG2** and **SDG3**), climate and energy solutions (**SDG9** and **SDG7**), and resources and circularity Solutions (**SDG12**).

The nutrition and health business are the largest by revenue and develops vitamins, nutrition supplements, and innovative animal feed and nutrition solutions to reduce the negative impacts of farming. This includes an algae-based Omega 3 for sustainable aquaculture practices (**SDG14**)

Vitamin production requires fermentation and as such, DSMs operational carbon emissions are relatively high (**SDG13**).

AIA: Leading health insurer in Asia supporting well-being and financial security

Positive alignment

Negative alignment N/A

AIA is a leading life and health insurance provider operating in the APAC region, focused on enabling healthier, longer, and better lives. The group operates in 18 countries including China, Thailand, Singapore and Malaysia, with 38 million individual policies and 16 million group insurance members.

AIA aims to address the significant health protection gap within the emerging Asian middle classes by offering innovative, affordable, and reliable life and health protection products (**SDG1**, **SDG3** and **SDG17**). This includes providing health insurance as well as a range of complementary programs to encourage more healthy living.

For example, the AIA Vitality program promotes improved health outcomes for its customers, while also benefiting customers through lower costs of insurance.

Domestic Equities

Cochlear: Connecting hearing experts around the world and leveraging customer referrals to improve health outcomes

Positive alignment

Negative alignment N/A

Cochlear are the global leader in implantable hearing solutions and changing, through technology and industry collaborations, the way we understand and treat hearing loss. It has provided more than 600,000 implantable devices, helping people of all ages to lead full and active lives (**SDG3**, **SDG4** and **SDG10**) including those in developing countries.

Leaning on the front foot in terms of customer advocacy, Cochlear have changed the way people view hearing implants. Employing the reach and engagement of social media, the company has joined people with hearing loss and worldwide hearing care experts. This has instigated a positive referral channel that has made a substantial change in many lives.

Sonic Healthcare: Supporting the fight against COVID-19 with a leading patient and clinician focus

Positive alignment

Negative alignment

Sonic is one of the world's leading healthcare providers (**SDG3** and **SDG9**) with operations around the world that specialise in pathology/clinical laboratory, primary care and diagnostic imaging services to clinicians and patients.

Since the COVID-19 pandemic began, Sonic's role in community health services has become imperative to the fight against the disease. Around 60 of Sonic's laboratories worldwide perform tests to detect the virus from a simple, non-invasive nose and throat swab.

These tests have been central to the effective control of COVID-19 outbreaks by confirming the diagnosis and prevalence of the disease. This also provides the data to determine infection rates and for use in epidemiological studies. As COVID-19 strains continue to evolve, these testing services are key to mitigating severe cases and fatalities, protect the vulnerable and the world to ease restrictions in a safe manner.

Climate Action: Companies that proactively reduce carbon emissions and address the impacts of climate change

Global Equities

Vestas Wind Systems: The world's largest wind turbine maker

Positive alignment	7 Affordable and clean energy, 9 Industry, innovation and infrastructure, 11 Sustainable cities and communities, 13 Climate action
Negative alignment	N/A

A Danish company addressing the urgency in the sustainability debate, the Vestas vision is to enable the low carbon transition through the design, manufacture and installation of wind turbines. Riding the clean energy wave and benefitting from the booming demand for clean energy solutions, Vestas have installed 117GW of turbines in 81 countries (**SDG7**, **SDG9**, **SDG11**, and **SDG13**).

Not just a sustainable creator, Vestas was also the first renewable energy manufacturer to have a climate target confirmed in line with the 1.5 degree scenario by SBTI. Vestas have taken responsibility over its own operations and committed to net zero emissions by 2030, without the use of offsets. This journey is well underway, with a substantial procurement of renewable energy made last year paired with the integration of hybrid and electric vehicles in the fleet.

Vestas company vision and strategy is focused on creating a low carbon and sustainable future. it has a strong operational sustainability strategy and have committed to net zero emissions by 2030.

Schneider Electric: Digital products that support new energy systems

Positive alignment	7 Affordable and clean energy, 8 Decent work and economic growth, 9 Industry, innovation and infrastructure, 11 Sustainable cities and communities, 13 Climate action
Negative alignment	N/A

Schneider is a global leader in energy management and industrial automation. It provides a range of services that support the low carbon transition including, solar and energy storage, microgrids, software supporting energy efficiency, and sustainability consultancy (**SDG7, SDG9, SDG11** and **SDG13**). Schneider is driving expansion into Southeast Asia and has since established a strong business foundation in Singapore.

The company has ESG management strategies, covering six thematic commitments which include aspects such as climate change, resource use, trust and equal opportunity. All are underpinned by short-term targets, quarterly reporting and strong governance tied to employee compensation for close to 60 000 employees.

By 2025 Schneider have set targets for 80% of revenues to be from green activities, 1000 top suppliers to reduce their operational emissions by 50%, 100% of packaging to be plastic-free, 1 million underprivileged people to be trained in energy management, and the achievement of gender equality across all levels of the business.

Domestic Equities

Fortescue Metal Groups: Supporting sustainable infrastructure and evolving future clean technologies

Positive alignment	7 Affordable and clean energy, 9 Industry, innovation and infrastructure, 11 Sustainable cities and communities, 13 Climate action
Negative alignment	6 Clean water and sanitation, 13 Climate action

Fortescue Metals group (FMG) is an Australian based iron ore producer with market leading ESG management practices in place. Through the production of iron ore, which is used to make steel, it is supporting the development of more sustainable cities, new industries and technology, and construction of renewable energy projects (**SDG9** and **SDG11**).

Recycled steel only makes up about a third of global steel needs, so iron ore mining and steel production in blast furnaces is still essential to make the rest of the steel required to build a sustainable future.

FMG has committed to net zero operations by 2030 and is currently investing 10% of its earnings in low carbon solutions like green ammonia and green hydrogen through its newly formed subsidiary – Fortescue Future Industries (**SDG7**).

Embodied water use and scope 3 emissions continue to be a focus from an ESG perspective (**SDG13** and **SDG6**).

Fluence Corporation: Equal access to drinking water and reducing marine pollution

Positive alignment	6 Clean water and sanitation, 9 Industry, innovation and infrastructure, 11 Sustainable cities and communities, 13 Climate action
Negative alignment	N/A

Around the world, 80% of wastewater is released into oceans without treatment and 75% of populations experience water shortages.

Fluence provides water solutions across 70 countries including Africa, South East Asia and South America. It makes affordable, energy-efficient, containerised, decentralised wastewater treatment and desalination systems which provide remote communities with limited access to water, access to potable and non-potable water systems (**SDG6**). This supports sustainable cities and greater climate resilience in periods of extreme weather and drought (**SDG13** and **SDG11**).

Fluence treats 58.8 billion gallons (222.7 billion litres) of wastewater annually, and removes dangerous contaminants from the environment (**SDG6**). Its systems are also generally more energy efficiency than competitors (**SDG11**). For example, the advanced MABR wastewater treatment technology has potential savings of more than 1 million GWh of electricity, the equivalent of more than 700 million metric tons of carbon dioxide.

APPENDIX

Appendix 1 FY21 ESG-centred engagements

Domestic Equities

Company	Timing	ESG/Sustainability focus area
Rio Tinto	Ongoing	Heritage, social licence
Qantas	Aug-20	Workforce
QBE Insurance	Sept-20	CEO resignation
Cleanaway	Sept-20	Governance, culture
Oz Minerals	Sept-20	Emissions, heritage
Fisher & Paykel	Sept-20	Animal testing, workforce
Transurban	Sept-20	Governance
BlueScope Steel	Sept-20	Modern slavery
BlueScope Steel	Sept-20	Climate change, modern slavery
Wesfarmers	Oct-20	Strategy, modern slavery
Steadfast	Oct-20	Governance
Cleanaway	Nov-20	Governance, culture
Oz Minerals	Nov-20	Emissions
ANZ	Nov-20	Climate change
Megaport	Dec-20	Governance, workforce, disclosure
Santos	Dec-20	Emissions
CSL	Dec-20	Community
Rio Tinto	Jan-21	Heritage, social licence
Cleanaway	Jan-21	CEO resignation
Audinate	Feb-21	Reporting
Santos	Feb-21	Emissions, strategy
Fortescue Metals	Feb-21	Heritage, social licence
Viva Energy	1/3/2021	Climate change
BlueScope Steel	Mar-21	Gender diversity
Lynas	Mar-21	Governance, pollution, community
Cleanaway	Mar-21	Culture
Liberty Group	Mar-21	Sustainable finance
Westpac	Mar-21	Climate change
Steadfast Group	Apr-21	Governance, disclosure
QBE Insurance	Apr-21	Climate change
CBA	Apr-21	Climate change
Rio Tinto	Apr-21	Governance, heritage, social licence
BlueScope Steel	Apr-21	Climate change
Rio Tinto	Apr-21	Governance
BHP	May-21	Heritage management
CSL	May-21	Community
Domino's	May-21	Disclosure
Santos	May-21	Strategy, climate change
Goodman Group	May-21	Governance, circular economy, human rights
Orica	Jun-21	Emissions
Rio Tinto	Jun-21	Governance, community

Global Equities

Company	Timing	ESG/Sustainability focus area
Republic Services	Nov-20	Circular economy, emissions, workforce safety
Waste Management	Dec-20	Circular economy, emissions, workforce
Nomad Foods	Dec-20	Strategy, nutrition, and health
Mondelez	Dec-20	Sourcing, modern slavery, emissions
Nomad Foods	Dec-20	Sourcing, nutrition, packaging
Reckitt Benckiser	Jan-21	Environment, supply chain, emissions
Volvo	Mar-21	Emissions, strategy
MercadoLibre	Mar-21	Strategy, emissions, access
Trane Technologies	Mar-21	Emissions, water, H&S
FMC Corporation	Jan-21	Emissions, strategy, D&I
Teck Resources	Apr-21	Emissions, environment, heritage management
Royal DSM	Apr-21	Strategy, emissions
Orsted	Apr-21	Strategy, biomass sourcing, emissions
Deere & Co	Apr-21	Strategy, emissions
Teck Resources	Apr-21	Heritage management, controversies
Ball Corp	May-21	Circular economy, workforce
Eli Lilly	May-21	Product safety, animal testing, access
ING Groep	May-21	Strategy, governance, responsible lending
Giant Manufacturing	Jun-21	Disclosure, emissions, workforce
Pulte Group	Jun-21	Product access, sourcing
Chipotle	Jun-21	Supply chain, sourcing, workforce, animal welfare
KKR	Jun-21	Fossil fuels, responsible finance
Yum China	Jun-21	Nutrition, labour rights, sourcing
Royal DSM	Jun-21	Emissions, agriculture
Vestas Wind	Jun-21	Biodiversity, modern slavery

Appendix 2 TCFD reference table

TCFD category	Disclosures	Addressed	Report reference	Planned improvements
Governance	a. Describe the board's oversight of climate-related risks.	Yes	Page 28	From FY22 will implement a dedicated update to the Board on climate change.
	b. Describe management's role in assessing and managing climate-related risks and opportunities.	Yes	Page 28-37	N/A
Strategy	a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long-term.	Yes	Page 29	N/A
	b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Partially	Page 28-31	To enhance our understanding and disclosure on the impact of risks on strategy and financial planning, scenario analysis will be completed between FY22-24.
	c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	No		
Risk Management	a. Describe the organisation's processes for identifying and assessing climate-related risks.	Yes	Page 28-37	N/A
	b. Describe the organisation's processes for managing climate-related risks.	Yes	Page 28-37	Our approach to managing climate-related risks is constantly under review.
	c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Yes	Page 28-37	N/A
Metrics and Targets	a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Yes	Page 33-37	N/A
	b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	Partially	Page 36-37	From FY22 operational Scope 1 and Scope 2 emissions will be measured and disclosed.
	c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	No		We are considering the need to set targets related to climate change. As yet, no definitive commitment has been made.

Appendix 3 Sustainable Compliance Committee Independent Experts

Elaine Prior, ESG expert

Elaine retired in 2017 from Citi Research in Sydney where she was a Managing Director covering ESG and Sustainability research for Citi's fund manager and superannuation fund clients. An award-winning ESG pioneer, she researched sustainability issues on ASX listed companies to help clients assess valuation impacts or risks, or to engage with companies to encourage risk mitigation or broader positive change. With Elaine at the helm, Citi was awarded 'Best Broking Firm' title by ESG Research Australia every year for eight years between 2009 and 2016.

Elaine held roles in investment research and funds management for 20 years prior to joining Citi in 2007, primarily focused on the resources sector, and was the top-rated BHP analyst in the Australian market for several years.

Elaine has degrees in Chemistry, Petroleum Engineering and Antarctic Studies and, before working in the markets, was an oil industry engineer in the UK North Sea and Australia. She also worked on environmental projects for Antarctic and Arctic tourism.

Melissa Stewart, Human rights expert

Melissa joined the Alphinity SSF Compliance Committee in September 2020. She is a recognised industry expert in modern slavery and human rights, and for more than 20 years has held senior advisory roles and full-time positions globally with the United Nations, Australian and international Governments, ASX-listed companies, and not-for-profits including World Vision Australia.

As a qualified lawyer with advanced degrees and practice in human rights law and international development, Melissa previously advised governments in Australia and globally on the legislative and policy response to modern slavery, and on business and human rights. She also has extensive experience in the private sector advising on responsible operations, investments, and supply chains. Most recently, Melissa worked with Australian insurance company IAG as a senior expert in the Office of the CFO advising relevant business units including legal, capital markets, M&A, risk, human resources, and group procurement.

Melissa has a BA in International Development studies and an LLB from the University of British Columbia. Before entering the advisory space, she worked as a corporate lawyer in Canada and Thailand.

Appendix 4 SDG Data for Sustainable Strategies (FY21 Holdings)

While these companies were owned during the year they may or may not be held at the time this report is published or subsequent to that.

Domestic Equities

	SDG Alignment			ESG
Company	Positive	Negative	Net score quartile	MSCI rating[11]
Communication Services				
Carsales	8, 10		3	AA
Telstra	9		3	A
Consumer Discretionary				
Baby Bunting	3	12	4	AAA
Bapcor	11		3	AA
Carbon Revolution	9, 12, 13		1	-
IDP Education	4		3	AA
Super Retail Group	3, 11	12	4	A
Wesfarmers	2, 4, 9, 10	12, 13	4	BBB
Consumer Staples				
Costa Group	2, 3, 10	6, 12	2	AA
Woolworths	2, 9, 10	3, 12	4	A
Financials[12]				
ASX	8, 10		3	A
Australia and New Zealand Bank	1, 8, 10	13	4	A
Commonwealth Bank	1, 2, 8	13	4	AA
IAG	1, 11, 13		1	AA
Liberty Financial Group	1, 8, 10		3	-
Macquarie Group	1, 7, 8, 9	13	3	AA
Medibank Private	1, 3		2	A
National Australia Bank	1, 8	13	4	A
Perpetual	8		4	A
QBE Insurance	1, 11, 13		1	AA
Steadfast Group	1, 11, 13		2	A
Westpac	1, 8	13	4	A
Health Care				
Cochlear	3, 4, 10		1	AAA
CSL	3	12	1	A
Fisher & Paykel Healthcare	3	12	1	AA
Next Science	3	12	3	-
Ramsay Healthcare	3, 9	12	2	AA
ResMed	3		2	AA
Sonic Healthcare	3, 9	12	2	A
Industrials				
ALS	9, 14, 15	12	1	AA
Bingo	9, 11, 12	12	3	-
Cleanaway Waste Management	9, 11, 12	12	2	BBB
Fluence Corporation	6, 9, 11, 13		1	-
Qantas	8, 9, 10	13	3	AAA
Reliance Worldwide	6, 9		1	AA
Sydney Airport	8, 9	12, 13	4	AAA
Transurban	8, 9, 11	12, 13, 15	2	AAA
Information Technology				
Appen	8, 9		3	BB
Audinate	4, 9, 12		2	A
Life360	3, 9		3	-
Megaport	9		4	BBB
Nuix	8, 9		2	-
Pushpay Holdings	1, 8		2	A
Whispir	8, 9		2	-
Materials				
BlueScope Steel	9, 11, 12, 13	13	1	AA
CSR	9, 11		2	A
Deterra Royalties	9		4	A
Fortescue Metals Group	7, 9, 11, 13	6, 13	1	AA
Iluka Resources	9, 11	6	4	A

Company	SDG Alignment Positive	SDG Alignment Negative	SDG Alignment Net score quartile	ESG MSCI rating[11]
James Hardie Industries	9, 11		2	BBB
Lynas	7, 9, 11	6, 12	2	A
Oz Minerals	7, 11, 13	6, 13	1	A
Rio Tinto	7, 9, 11, 13	6, 13	2	A
Sims Metal Management	11, 12		1	AAA
Real Estate				
Goodman Group	8, 9	12	4	A
Lifestyle Communities	3, 9, 10, 11		1	A
Mirvac Group	9, 11	12	3	AAA
Utilities				
APA Group	7, 9	13	3	AAA
New Energy Solar	7, 9, 11, 13	12	1	A

Global Equities

Company	SDG Alignment Positive	SDG Alignment Negative	SDG Alignment Net score quartile	ESG MSCI rating[11]
Communication Services				
Alphabet	4, 9, 11, 16, 17	11, 12, 16	1	BBB
Consumer Discretionary				
Chipotle Mexican Grill	2, 3	12	4	BBB
HelloFresh	2, 3, 11, 12	12	1	A
Lowe's	9, 11	11, 12	4	AA
MercadoLibre	1, 8, 9, 10, 17	11, 12	1	A
Nike	3, 5	12	4	A
Nomad Foods	2, 3, 12	12, 13	2	A
PulteGroup	9, 11	12, 15	3	BBB
Financials[12]				
AIA Group	1, 3, 17		2	A
ING Groep	1, 8	13	4	AA
Morgan Stanley	8	13	4	AA
S&P Global	8, 9, 10, 12	13	3	A
SVB Financial	8, 9		3	A
Health Care				
Danaher Corp	3, 6, 9, 14	12	2	BBB
Eli Lilly	3	12	1	A
HCA Healthcare	3, 9, 10	12, 13	2	A
UnitedHealth	1, 3, 10	3	2	BB
Industrials				
Deere & Co	2, 6, 9	12	4	A
Otis Worldwide	9, 11		1	BBB
Schneider Electric	7, 8, 9, 11, 13		1	AAA
Trane Technologies	2, 9, 10	13	3	AAA
Vestas Wind Systems	7, 9, 11, 13		1	AAA
Volvo	9, 11	13	4	AA
Information Technology				
Adobe Systems	8		4	AA
ASML	9, 11		2	AAA
Infineon	7, 9		3	AA
Keysight	7, 8, 9, 11		2	AA
Microsoft	4, 8, 10	13	1	AAA
Nvidia	3, 8, 9, 11	3	4	AAA
Visa	8, 9, 10		2	A
Materials				
Ball Corp	9, 12		3	AA
DSM	2, 3, 7, 9, 12, 14	12, 13	3	AAA
Real Estate				
Prologis	8, 9	12	3	AA

11 MSCI data as of 30 June 2021.

12 Negative alignment to SDG3: Climate Action in banks reflects small credit exposure to fossil fuels, relative to the entire loan book. A review is underway to further account for other positive contributions, such as green financing, and negative contributions, such as adjacent industries to fossil fuels like transportation and refining, or other high emitting sectors.

Find out more

For more information, please contact your financial adviser, or call the Fidante Partners Investor Services team on **1800 195 853** or visit us at **www.alphinity.com.au**

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