ESG and Sustainability Report

2022

alphinity
INVESTMENT MANAGEMENT

About this report

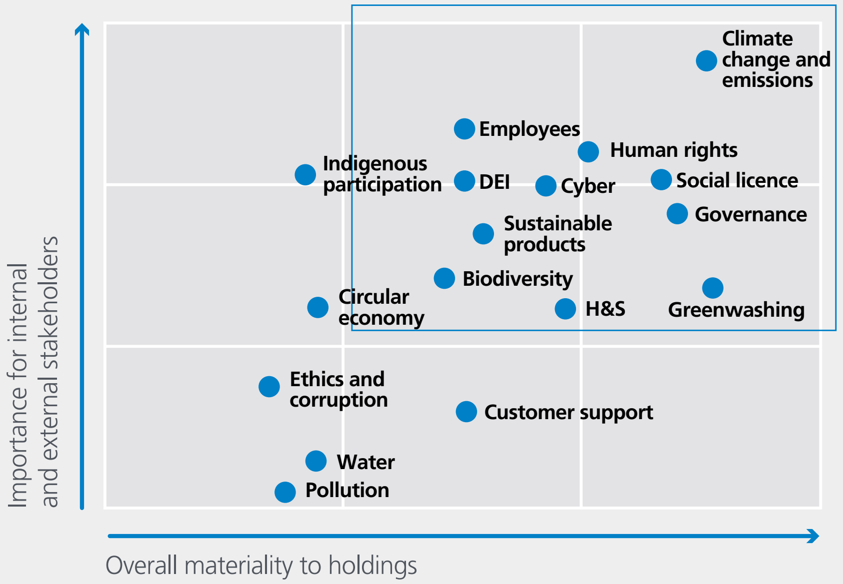
This is Alphinity's second Environmental, Social and Governance (ESG) and Sustainability Report. This report highlights key ESG and sustainability outcomes and achievements across all Alphinity funds including the Australian Share Fund, Concentrated Australian Share Fund, Australian Sustainable Share Fund, Global Equity Fund, and Global Sustainable Equity Fund.

Materiality

This report has been structured around a set of material issues. To identify the most material ESG issues we completed:

- Analysis of Alphinity's internal ESG materiality assessment and main data outputs
- A workshop with Alphinity team members in which each was asked to identify the most relevant ESG aspects for the firm's holdings and the investment process
- Interviews with clients to identify the ESG topics they would like to see included in this report

The outcomes of the above activities are shown below:



Issue	Report section
Climate change	Climate
Human rights	Modern slavery
Social licence	Multiple sections
Greenwashing	Multiple sections
Governance	Stewardship
Employees	Workforce
DEI	Diversity, equity and inclusion
Sustainable products	Sustainable investing
Biodiversity	Biodiversity
H&S	Workforce
Cyber	Cyber & data

Supporting documents

Supporting documents, such as Alphinity's ESG and Stewardship policies, are available on the Alphinity website, alongside separate information sheets for climate change, modern slavery, and our SDG analysis.

Where appropriate, these are referenced throughout this report.

If you have any feedback on this report please contact Jessica Cairns, Head of ESG and Sustainability, directly at jessica.cairns@alphinity.com.au.

Jessica Cairns
Head of ESG and Sustainability

Moana Nottage
ESG and Sustainability Analyst

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A message from the Alphinity founders

JOHAN CARLBERG
Principal, Portfolio Manager

ANDREW MARTIN
Principal, Portfolio Manager

BRUCE SMITH
Principal, Portfolio Manager

STEPHANE ANDRE
Principal, Portfolio Manager

We are pleased to present Alphinity's second annual ESG and Sustainability Report. This report demonstrates our efforts in responsible investment across FY22 (1 July 2021 to 30 June 2022). Unless stated otherwise, the data, outcomes and examples in this report are from this period.

At Alphinity, we are always striving to do things better. We believe that continuous improvement is essential for running our business well and serving the best interests of our clients. Responsible investing is a dynamic and ever-evolving space. It's important that we stay on top of these changes, continue to expand our thinking as fund managers and raise the bar in the responsible investment landscape.

The ESG space this year was characterised by three moving parts:

- The European Union pushing forward with the finalisation of the EU Taxonomy and Sustainable Finance Disclosure Regulation
- The Russian invasion of Ukraine and the resulting global energy crisis
- The anti-ESG movement in some parts of the US, with regulators urging investors to focus on fiduciary outcomes over ESG activism

COP26 was a milestone event in FY22. Firstly, the Glasgow Financial Alliance for Net Zero committed more than $130trn of private finance towards net zero by 2050. Secondly, 90% of the world's emissions are now covered by net zero commitments and, optimistically, this could mean global warming may be kept at ~1.8°C. In the final days of the summit, world leaders formally approved Article 6 of the Paris Agreement which established a framework for cross-border carbon markets.

The activity at COP26 was a global signal to the market that governments, investors and industry are accelerating action related to climate change. Unfortunately, shortly after this, Russia started its invasion of Ukraine increasing the level of concern surrounding the economic consequences of transitioning to 'sustainable energy'.

This year saw an increased focus on 'greenwashing'. Greenwashing is the practice of misrepresenting the extent to which a financial product or investment strategy is environmentally friendly, sustainable or ethical. We are strongly opposed to greenwashing, and have a number of control measures in place, including this report, to keep us from falling into this practice. We recently published our views about the investment risks of greenwashing.

Recognising the increased awareness, and sometimes scrutiny, around ESG and ongoing changes in regulation and expectations, we take a pragmatic and progressive approach to responsible investment. All of our funds apply ESG considerations through a risk lens to maximise returns for our clients by seeking to reduce the impact of ESG risks but also potentially realise opportunities.

In addition to integrating ESG in our investment considerations, our two sustainable funds also seek to invest in companies that we assess as positively contributing to the Sustainable Development Goals (SDGs). The Australian and global sustainable funds are tailored for investors who wish to support companies that are "doing good" and can deliver positive sustainable outcomes.

In FY22 we focused on enhancing our ESG integration processes and policies, formalising the SDG analysis methodology and undergoing more thematic research and thought leadership.

ESG integration

We have continued to apply our ESG materiality process across our funds and have implemented a formalised internal ESG risk level for integration into our investment tools and reports. The management of all aspects of ESG is shared between the ESG and the investment teams. This year we introduced a number of more formal touchpoints between the two teams to review ESG materiality assessments, discuss engagements, and collaborate on ESG research topics. Ultimate ownership and accountability for ESG risks within the portfolios remain with the investment team.

SDG analysis

Early in 2021, we made the decision to bring our SDG analysis in-house.

Recognising the risks around greenwashing, we aim to be consistent, transparent and accountable when it comes to our sustainability assessments. This year we introduced a number of process improvements and, importantly, received limited assurance by KPMG over our SDG alignment framework and carbon metrics. KPMG's limited assurance report is attached to this report.

ESG policies

Until FY22, Alphinity had a single ESG policy in place, supported by further information in our FY21 ESG and Sustainability Report.

This year, we replaced our existing ESG policy with a suite of new policies and disclosures, including Alphinity's ESG and Stewardship policies, and separate fact sheets for climate change, modern slavery, and SDG analysis.

ESG research and thought leadership

We believe it is important to actively contribute to ESG thought leadership and be a positive voice in the ESG space. This year we completed a significant ESG project on Assessing Workplace Culture following the release of Rio Tinto's report into its workplace culture in February 2022.

We initiated this research and engagement project to explore related risks across the industry and deepen our understanding of factors that can drive, or mitigate, or even prevent harmful behaviour within a company. The project begun as a way to engage with Australian companies in the mining sector and evolved into a framework to assess workplace culture across not only mining but a wider range of domestic and global industries such as industrials, financials and information technology.

To share our learnings from this project, we published a detailed report with our insights and findings. This report includes key questions for investors to consider when engaging with companies on culture.

An introduction from Melissa Stewart: Views on the evolving landscape around modern slavery

MELISSA STEWART
Sustainable Compliance Committee member

While my background is in international development and practicing law, I have spent the majority of my career working in areas of human and environmental rights and justice. Through a turn of events in 2001 while on placement in Bangkok, Thailand – I grabbed the opportunity to work at the United Nations, working on the advocacy for and promotion of a newly passed international law on trafficking in persons. Little did I know at the time that this issue would gain so much momentum and attention, nor that I would end up spending the next two decades focused specifically on bringing together a range of stakeholders to both prevent and address this insidious crime.

At the time, we described human trafficking as the 'perfect crime' – as there was no shortage of supply of vulnerable people looking for work, no shortage of corrupt people willing to exploit them, and no fear by the criminals of reprisal.

In the mid-2000s there was a palpable shift in how the world looked at the issue of human trafficking. People recognised that this was not about the illegal movement of a person but instead, it was about the exploitation of someone's labour. Men, women and children could be victims, and no country in the world was immune to this crime. When Rana Plaza collapsed in 2013 and we learned about the deplorable conditions in some factories, the entire world was able to see directly how their clothes, food and personal technology might, somehow, somewhere, have a link to someone else being in actual harm.

In 2006, I remember sitting with UN colleagues brainstorming ways we could engage businesses overseas to care about how their supply chains impact things like the fishing or agricultural industry in Asia. Now, 15 years later, I can see the impact we had in advocating for enhanced corporate disclosure, better legislation, and promoting responsible business.

The introduction of modern slavery legislation in both the UK and Australia has raised the bar in corporate reporting and encouraged laggards to lift their game or face criticism and backlash. This, combined with human rights due diligence laws in Europe, SEC import laws in the US, and the use of the term "modern slavery" (a collective umbrella term for underlying crimes like forced labour, human trafficking, child labour, debt bondage etc) for conceptual clarity, has had the profound effect of raising awareness of human rights issues and encouraging consumers to have a more considered ethical approach to their global supply chains.

As an investor, Alphinity has the ability to sift through the 'blue-wash' and ask tough questions to the companies it considers investing in. Each sector has its own challenges, and there is no silver bullet to address this type of crime. We do hope that with increased disclosure, more engagement and collaboration on the issue, and greater knowledge of best practice, we can reduce the prevalence of modern slavery in global supply chains. We work with our companies to demonstrate to us how their controls continue to improve annually and how they define and measure effectiveness. At this stage we are most interested in transparency of how a company assesses their salient human rights risks and impacts, works with impacted stakeholders, and authentically addresses areas of concern.

Publicly available corporate reporting is a helpful tool for us to learn about what companies are doing. But the issues will not be solved by simple well-intentioned fixes like a report, a policy, training, or a hotline. None of these solutions will be effective without a genuine desire to help people who are being exploited and without listening to the very people who are facing vulnerable situations.

Over the last 20 years I have had the privilege of working within the UN, government agencies, international NGOs, ASX-listed businesses, and now with the investment community. Never before have I seen such a meeting of minds of the importance of embedding human rights due diligence into corporate practice. The drivers may be varied – mitigating risk, improving the bottom line, engaging customers and employees, but at the core – I see genuine care of people knowing that their success cannot be built on the backs of exploiting others.

While the demonstration of impact on the ground in this space is still nascent – I know that there have been many shifts for worker's rights and there will be more. Soon, those non-compliant factories, farms, fishing boats and workplaces will no longer win bids in this ethically competitive environment. Workers will not live in fear – but trust grievance mechanisms that deliver remediation and secure justice for victims, and dispense of the current impunity of offenders.

Some may argue that society's expectations for business are not being delivered fast enough. I think it's also important to reflect on how far we have come in the last two decades and keep a long-term view on the desired outcome. The momentum is now increasing and as companies learn year on year how to better exercise both their individual and collective leverage to drive change - we are all taking steps forward towards the desired outcome of safer, more respectful, and more equitable working conditions for all. Every stakeholder, including investors, exercising their leverage for good will be the key.

FY22 highlights

About us

Alphinity

- Established in 2010
- 18 employees
- 5 investment strategies across Australian and global equities

Integrated and risk-based approach to ESG supported by internal and external ESG specialists

Sustainable Compliance Committee

- Elaine Prior – ESG expert
- Melissa Stewart – Human rights expert

Encouraging investor-led change through collaborative engagement

PRI Principles for Responsible Investment | Climate Action 100+ | FAIRR A COLLER INITIATIVE | 40:40 VISION | riaa Responsible Investment Association Australasia

Our Australian and global sustainable funds

Two dedicated strategies investing in companies that align with the United Nation's Sustainable Development Goals. Some of the themes we invest in include:

Sustainable cities
Companies that transform our cities, enable clean urban environments and deliver infrastructure critical for our future.

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

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

Healthy lives
Companies that support the healthy lives of people and healthcare systems that are fair and equal.

Strongest SDG alignment[1]

- 3 Good health and well-being
- 8 Decent work and economic growth
- 9 Industry, innovation and infrastructure
- 11 Sustainable cities and communities

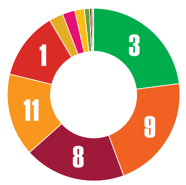
Across the year

- 53 companies held in the Domestic Sustainable Share Fund
- 54 companies held in the Global Sustainable Equity Fund

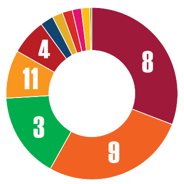
FY22 SDG alignment

Weighted net SDG alignment of domestic and global sustainable funds

Domestic Sustainable Share Fund



Global Sustainable Fund



Note: Annualised month-end portfolio weight is multiplied by a company's positive and negative SDG alignment to represent the SDG alignment of our investment activities through the year.

[1] Weighted net SDG alignment

ESG highlights

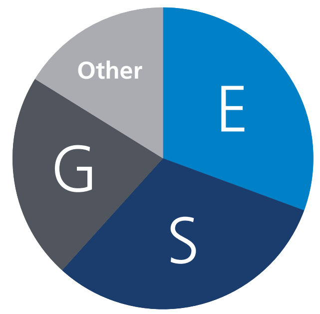
Achievements

- Rolled out the ESG materiality assessment with the Australian and global investment teams
- Enhanced policies: ESG Policy and Stewardship Policy
- Published information factsheets: Climate change, modern slavery, SDG analysis
- Limited assurance over the SDG alignment framework and carbon metrics presented in this report

FY22 metrics

- 168 dedicated ESG engagements across domestic and global companies
- Voted on >1500 resolutions put to shareholders
- Key engagement themes: Climate, sustainability outcomes, remuneration, human rights, health & safety and workplace culture

Discussions across E, S and G topics



Climate change

Alphinity carbon metrics

- Weighted average carbon intensity: 222 tonnes CO2e/$USm revenue
- Total carbon emissions: 787 896 tonnes CO2e
- Carbon footprint: 70 tonnes CO2e/$AUDm invested

Of our FY22 holdings

- 59% have a 2050 net zero commitment
- 59% have interim carbon or energy reduction targets in place
- 75% publish TCFD disclosures

As at 30 June 2022

Modern slavery

This year we built out the modern slavery risk assessment with measures to assess the management of supply chain exposures.

Of our FY22 holdings

- Disclosures improved compared to FY21 with 87% companies having a modern slavery statement in place
- Transparency is rising with 57% companies disclosing information on human rights breaches
- 31% have high modern slavery exposure to at least one risk area (supply chain, operations, or downstream value chain)

About Alphinity

Established in
2010

18
full time employees

5
strategies across global and Australian equities

2
dedicated sustainable strategies

$A16.8 billion
of assets under management

30 June 2022

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 equity investment opportunities outside of Australia. We now have two dedicated teams managing Australian and global equity funds, supported by a range of specialist resources.

Our boutique ownership structure results in an alignment between our fund managers and the objectives of investors in our funds. By outsourcing business management, distribution, administration and compliance services to Fidante Partners, a wholly-owned subsidiary of ASX-listed financial services company Challenger Ltd, Alphinity employees are able 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.
- A dedicated ESG team and a comprehensive approach to responsible investment.
- 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 sustainable strategies. Our sustainable strategies aim to invest in listed global and Australian companies that we assess as having the ability to make a net positive contribution to society in areas of economic, environmental and/or social development by contributing towards the advancement of the 17 United Nation's Sustainable Development Goals (SDGs).

Our team

Figure 1. Alphinity team

Fidante administration and distribution (~160 staff)

Investment operations	Risk & performance	Compliance	Fund finance	Business services

Our team

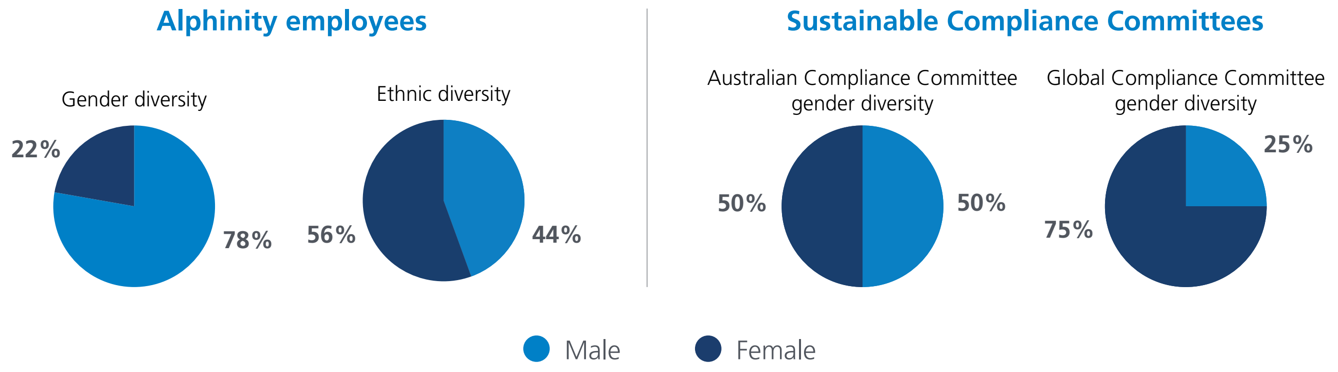
Our team is made up of 18 full time employees covering investment and support roles. This year, two new people joined the team; Chris Willcocks, as a global Portfolio Manager and Nick Ying, as a quant analyst and trader.

At Alphinity we pride ourselves on creating an inclusive and stable work culture. Our workforce is culturally diverse with people from a range of backgrounds and nations **(Figure 2)**. More than half our employees were born outside of Australia, from places including Sweden, Belgium, Japan, Canada, South Africa, Russia and China.

Gender diversity, especially within investment teams, remains a challenge and a focus for Alphinity. As a boutique asset manager, Alphinity has a relatively small number of employees and a low rate of staff turnover. Our activities are supported by the large and highly diverse workforce at Fidante Partners.

When making new hires for the business we aim to have a gender-diverse candidate pool and have all staff participate in the interview process. Ultimately, the goal is to always have a fair interview process and focus on securing candidates that are best suited to the role. We remain cognisant of encouraging a diverse range of participants to apply for any roles, and strive to maintain inclusive language through our job advertisements to reduce potential bias in our hiring processes.

Figure 2. Diversity metrics[2]



Our funds

Alphinity has five active strategies across domestic and global equities with total funds under management of $A16.8 billion as at 30 June 2022.

Fund Name	Strategy Summary	Year established	Number of stocks
Australian Share Fund	Diversified portfolio of quality large-cap Australian shares	2010	35-55
Concentrated Australian Share Fund	Concentrated portfolio of Australian shares representing our best ideas	2010	20-30
Australian Sustainable Share Fund	Diversified portfolio of Australian shares that support one or more of the SDGs	2010*	35-55
Global Equity Fund	Concentrated portfolio of high-quality global shares diversified across different industries and countries	2015	25-40
Global Sustainable Equity Fund	Concentrated portfolio of global shares that support one or more of the SDGs	2021	25-40

*Revised in 2017 to incorporate the SDGs

[2] Data includes new employee onboarded in November 2022.

Giving back

We were pleased to provide a meaningful amount of support to two charities in FY22 that are striving to improve education in disadvantaged communities and for Indigenous students.

There are many organisations doing good in the world, and our decision to support Ardoch and the Go Foundation aligned with our desire to be actively involved in local and educational initiatives. To identify these organisations, the ESG team found eight potential charities across the themes of education, environment, modern slavery and Indigenous equity. Alphinity then voted through two rounds to decide on our FY22 partnerships with Ardoch and the Go Foundation.

Source: www.ardoch.org.au

Ardoch

Ardoch is a children's charity focused on improving educational outcomes for children and young people in disadvantaged communities. It has been a delight to partner with a year 6 class in a Western Sydney school and participate in the Numeracy program. This included visiting the school to meet our blogging partners. At the end of the program we invited our students to visit our workplace and experience our day-to-day as investment specialists. We hope that our connections, conversations and numeracy exercises with the class motivate their studies and has communicated the value of education and the exciting opportunities that lie beyond school.

Source: www.gofoundation.org.au

Go Foundation

The Go Foundation specialises in supporting education scholarship programs for Indigenous students across Australia. With the organisation repositioning its partnership strategies this year and with COVID-19 disruptions, the opportunity for volunteering was limited. Nonetheless, we hope our donation has contributed to the education of Indigenous students and we hope to partner with them for volunteering and charity events in the future.

Pillars of responsible investment

We are signatories to the United Nations-backed Principles of Responsible Investment (PRI). The PRI defines responsible investment as "a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership".

We believe that ESG considerations can have a material impact on the performance of companies (positively and/or negatively) and as active investment managers we need to understand and integrate these risks appropriately.

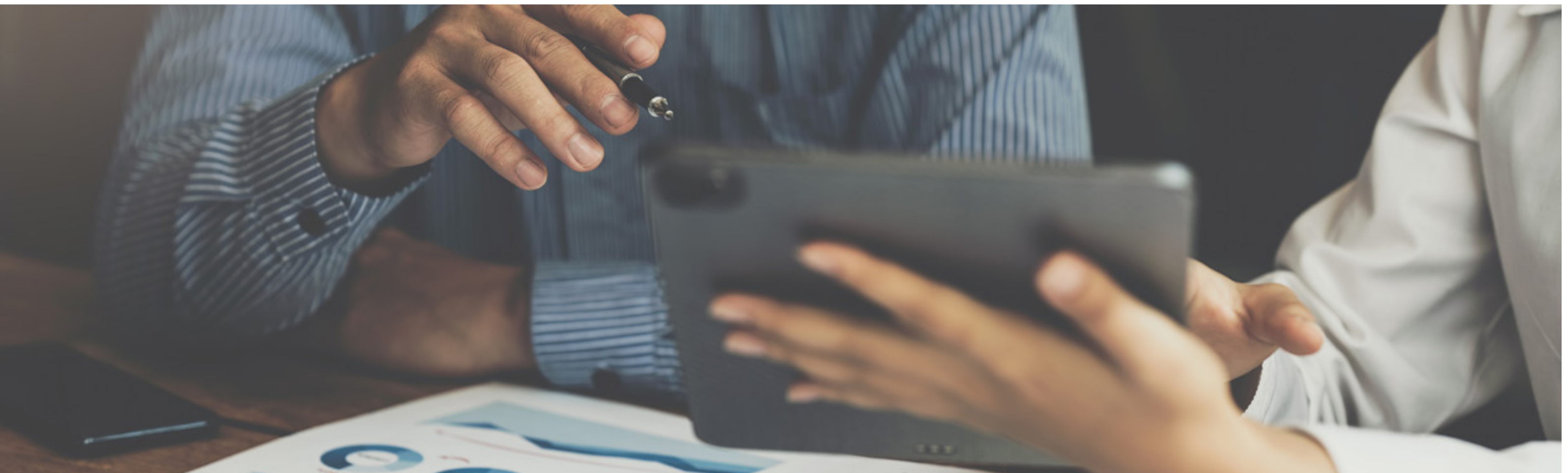
Stewardship efforts such as company engagement, proxy voting activities, research and thought leadership, and collaborative engagements are an important part of responsible investing. These activities have the potential to influence company behaviour, improve practices, reduce headwinds for a business and ultimately, improve returns over the long-term.

Thematic research and thought leadership are used to understand ESG risks and opportunities across the portfolio and are particularly important for emerging ESG thematics like climate change. We believe that taking a broad approach to ESG risk management and communicating our views externally supports wider ESG management and helps companies understand investor expectations.

The Global Sustainable Equity Fund and the Australian Sustainable Share Fund aim to invest in companies where their products and services are delivering sustainable solutions and have a net positive alignment with the SDGs.

The following outlines the five pillars of our approach to responsible investing and key updates in FY22.

1. ESG INTEGRATION
2. STEWARDSHIP AND ACTIVE ENGAGEMENT
3. THEMATICS
4. SUSTAINABLE STRATEGIES
5. TRANSPARENCY



Pillar	Goal	FY22 update
ESG INTEGRATION We integrate ESG factors into investment decision making	Use an ESG materiality process to identify ESG risks and opportunities for holdings	• We introduced an internal ESG risk level as an enhancement to our established ESG materiality process. This has been rolled out and integrated for our global business. Roll-out is ongoing for the Australian business. • Any stock assessed at the highest risk level of 'avoid' has not met our minimum ESG risk criteria and consequently is not considered for investment.
	Monitor ESG risks and opportunities and any influence on investment decision making	• We have included examples of ESG integration throughout this report. • We implemented a review process to formally review ESG risks and engagement at least twice annually.
STEWARDSHIP AND ACTIVE ENGAGEMENT We are active managers and focus on using our influence to encourage better ESG outcomes and reduce risk	Establish ESG engagement objectives and engage with holdings on an ongoing basis to reduce ESG risks	• We held 168 ESG-focused engagement meetings during this financial year. • We are developing engagement objectives for material ESG issues across our holdings.
	Vote all resolutions put to shareholders	• We voted on 100% of proposals put to shareholders.
THEMATICS We consider, research, and assess key sustainability thematics like climate change and modern slavery	Identify key sustainability thematics and undertake research as needed to inform broader views on ESG, sustainability, or for specific stocks	We undertook research for specific thematics including: • Workplace culture • Artificial intelligence • Sustainability of fertiliser • EU Taxonomy and 'gas as a transition fuel'
SUSTAINABLE STRATEGIES We have two dedicated sustainability strategies structured around the UNSDGs	Use a consistent and documented approach for the SDG analysis for the two sustainable funds	• We have developed sector-level assumptions for our SDG analysis process. • Our SDG alignment framework and carbon metrics were assured by KPMG. KPMG's limited assurance report is attached to this report. • We introduced a bi-annual review process of our SDG data with a member of the Sustainable Compliance Committee starting in July 2022.
	Report on SDG alignment for fund holdings	• Our FY22 weighted SDG alignment has been presented in this report, with the SDG alignment included in Appendix 2.
TRANSPARENCY We have a public ESG Policy and Stewardship Policy in place and disclose our proxy activities and portfolio holdings	Publish annual ESG and Sustainability Report	• We published our first ESG and Sustainability Report in October 2021. This is the second annual ESG and Sustainability Report.
	Review Responsible Investment policies and develop additional policies as needed	• The Alphinity Board approved three new responsible investment policies to replace the single ESG Policy that has been in place since 2012. The new policies include: - Stewardship Policy - ESG Policy • We have also published fact sheets. These include climate change, modern slavery, and our approach to the SDG analysis.

ESG INTEGRATION, STEWARDSHIP AND SUSTAINABLE INVESTING

Figure 3. Spectrum of responsible investing

More focus on sustainable investing and positive outcomes

Traditional investment	RESPONSIBLE AND ETHICAL INVESTING							Philanthropy
	ESG integration	Negative screening	Norms based screening	Stewardship	Positive screening	Sustainable themed investing	Impact investing	
Limited or no regard for ESG and ethical factors in investment decision making	The systematic and explicit inclusion by investment managers of environmental, social and governance factors into the investment decision-making process	The exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria	Screening of investments against minimum standards of business or government practice	Employing shareholder power to influence corporate behaviour	Intentionally tilting an investment portfolio towards positive solutions, or targeting companies with better ESG performance relative to peers	Investment in themes or assets and programs specifically related to improving social and environmental sustainability	Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return	Using grants to target positive social and environmental outcomes with no direct financial return

Core and concentrated funds

Sustainable funds

Source: Responsible Investment Association of Australasia

Figure 3 highlights the responsible investing characteristics of our core, concentrated and sustainable funds.

ESG integration:
All funds use a consistent approach to ESG integration including an ESG materiality framework, ESG risk and opportunity documentation, and integration of ESG aspects into the investment process. All funds also use company engagement and proxy voting as strategies to collect detailed information on ESG aspects, communicate with management, and encourage practices that reduce ESG risks over time.

Negative screening:
All funds exclude thermal coal producers, tobacco producers and controversial weapons manufacturers with a range of revenue thresholds.[3] The sustainable funds further exclude a range of additional activities including alcohol production, pornography, fossil fuel production, and utilities that use fossil fuels to generate electricity. A full list of exclusions, including revenue thresholds, can be viewed in the relevant fund charter on the Alphinity website here

Positive screening and sustainable investing:
The sustainable funds build on the shared ESG process and applies positive screening and sustainable themed investing to its investment universe, seeking to invest in companies that we assess as having a net positive alignment to the SDGs.

[3] Core funds have a 10% revenue threshold that is applied for thermal coal producers. Sustainable funds have additional exclusions which can be viewed in the respective Charter. A 0% revenue threshold is applied for tobacco producers and manufacturers of controversial weapons for all funds.

ESG integration

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

ESG is the management of environmental, social, and governance (ESG) risks and opportunities. Generally, these risks and opportunities are related to operational practices such as emissions reduction, community management, employee safety and corporate governance.

We believe that the integration of ESG research into investment management processes and ownership practices is essential for our success as investment managers. As such, integrating ESG into investment decisions is the responsibility of the investment team and viewed as a key component of our fundamental investment analysis.

Roles and responsibilities

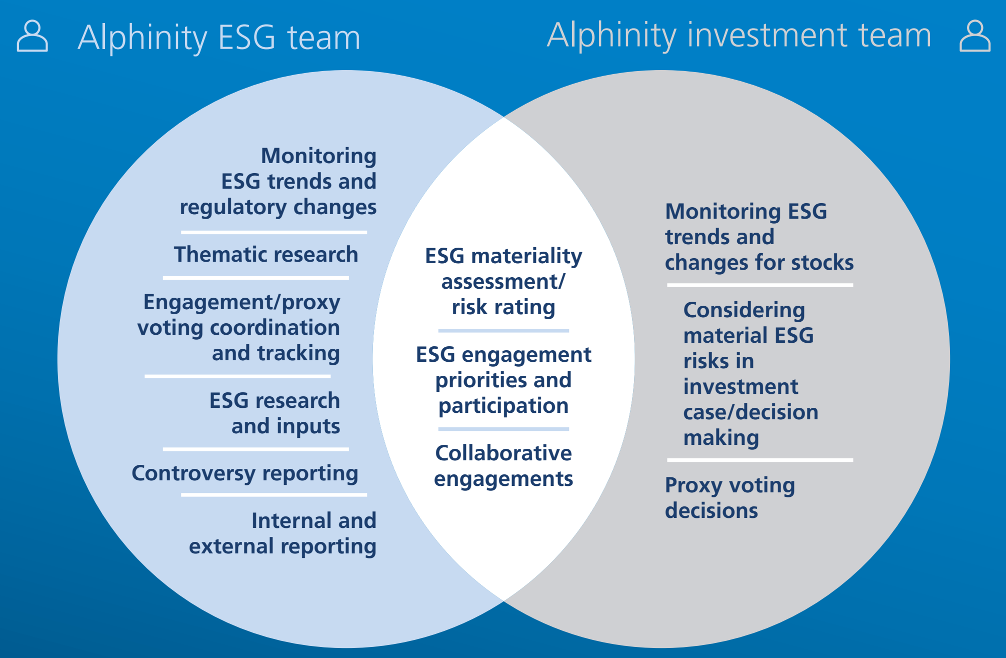
The identification and management of ESG risks and opportunities is the responsibility of all members of the Alphinity investment team, with support from an in-house ESG team **(Figure 4)**.

Education

The investment team regularly participates in ESG briefings or teach-in sessions run by the ESG team. From time to time, we also invite external ESG specialists to present to the team.

In the past year we have held teach-ins on biodiversity, circular economy, climate change, and our approach to responsible investment. We also hosted the CEO of Macquarie Group, who shared her insights on the financial sector's role in the low carbon transition and learnings from COP26.

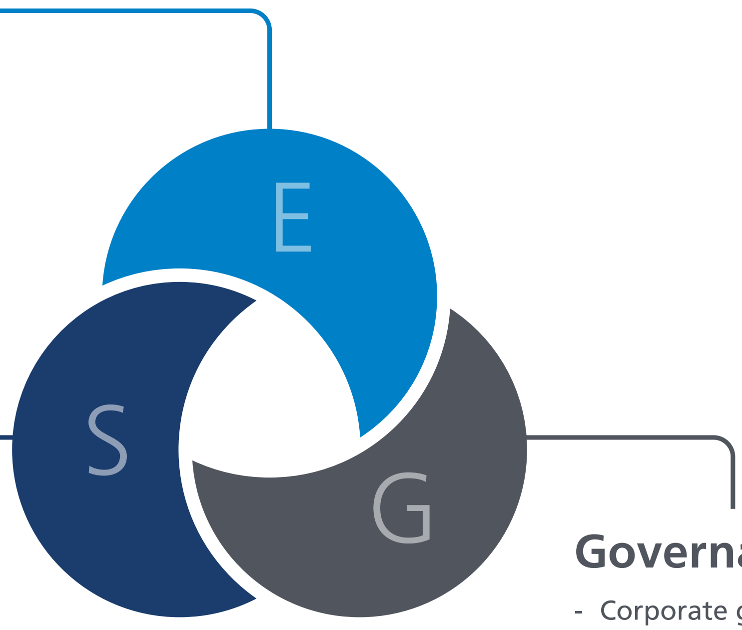
Figure 4. ESG roles and responsibilities



The Alphinity ESG team cover domestic and global equities. We believe this is a beneficial structure as it supports the identification of global best practice, more thorough thematic research, and sector level comparisons between domestic and global businesses.

Environment

- Climate change
- Water management
- Circular economy (waste, packaging and recycling)
- Biodiversity
- Raw materials sourcing
- Green products

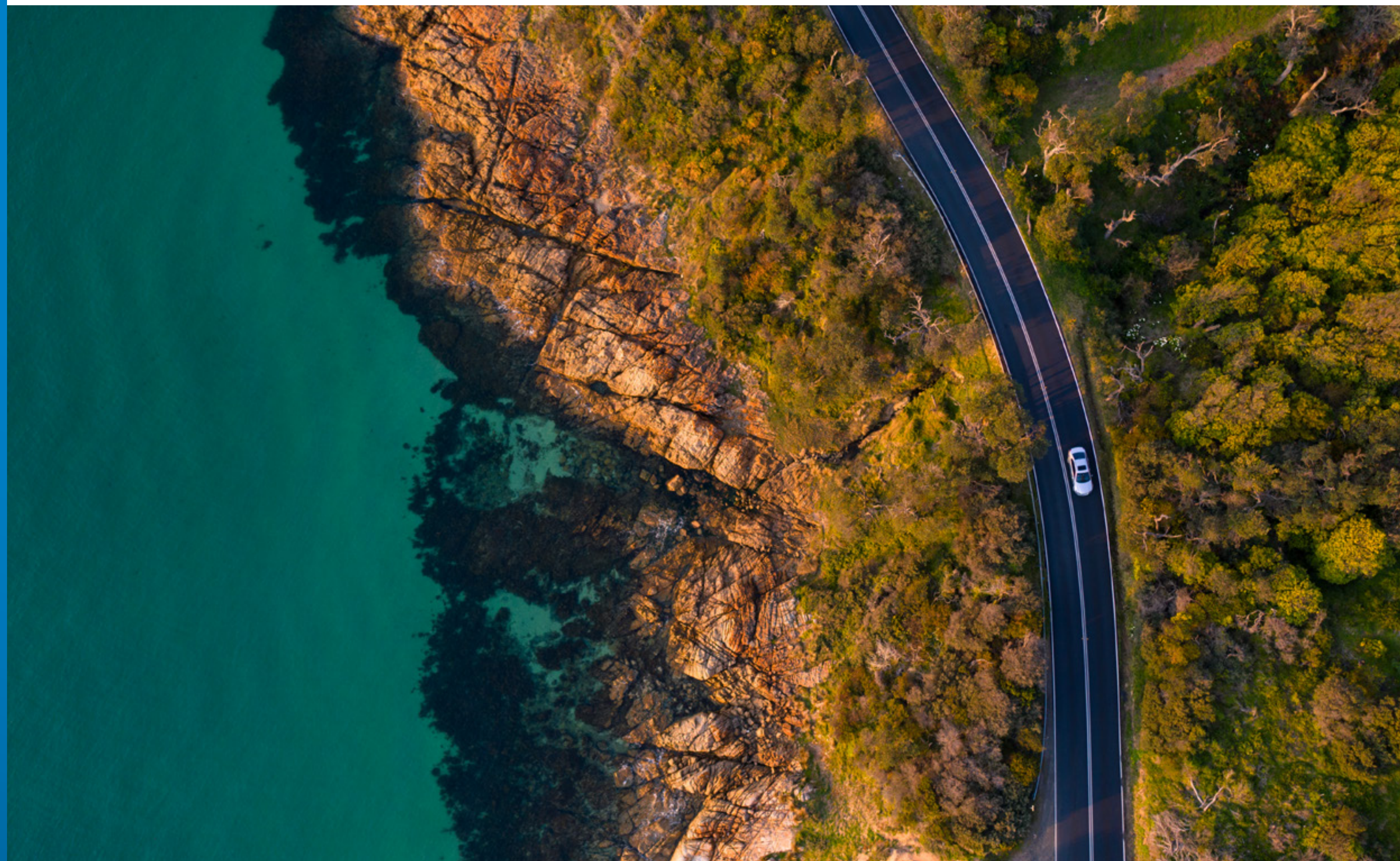


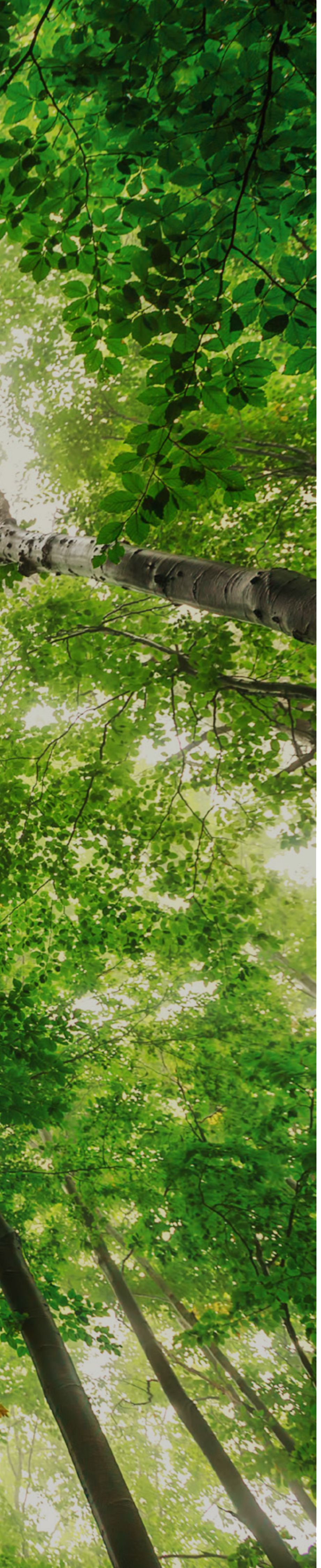
Social

- Labour management
- Human capital development
- Modern slavery
- Diversity and inclusion
- Product safety and quality
- Customer privacy and data security
- Indigenous heritage

Governance

- Corporate governance
- Ethics and corruption
- Board composition and effectiveness
- Remuneration
- Competitive behaviour
- Leadership/partnerships





ESG materiality and risk assessment

Figure 5 illustrates the risk-based approach we take to ESG. Concentrating on risk is important because it recognises that ESG factors can have a significant impact on financial performance. This reflects our fiduciary obligation to our clients to both maximise returns and minimise risks. Accordingly, while this responsibility is shared between the ESG and investment teams, the ultimate ownership and accountability for ESG risks within the portfolios remains with the investment teams.

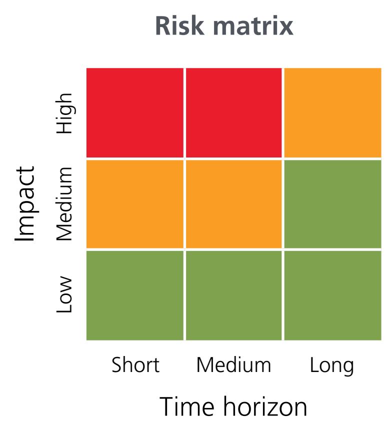
In 2021, we introduced an ESG materiality assessment to support the consistent identification and analysis of ESG aspects across companies we hold, and companies we are considering investing in. This process remained in use through FY22 and is used to identify the most significant risks and opportunities for each company from a set of standard ESG topics.

Identifying ESG risks and opportunities is completed collaboratively by the responsible ESG and investment team members. The goal is for both teams to work together and identify material issues to the business that could require specific action. These could entail further research on a particular topic, company engagement to better understand the risks, an engagement objective to encourage and track progress over time, or to integrate the ESG consideration into the investment case.

In FY22 we enhanced the framework by assigning an internal ESG risk level. Depending on the number and extent of various threats and opportunities, a risk level from 1 (low) to 4 (avoid) is assigned to each company in the portfolio. Any stock that is assessed at the highest risk level (avoid) is not considered for inclusion into the funds. Work is underway to integrate this risk level into our internal investment tools, the database and investment reporting templates.

Throughout the year we expanded our engagement with external experts to better explore ESG risks, confirm best practice management, and inform thorough thematic research. For example, when delving into the theme of sustainable agriculture and fertiliser, we gained views from multiple experts and a researcher from the University of Technology Sydney.

Figure 5. Risk-based approach to ESG research and engagement



We take a risk-based approach to ESG integration, scaling our ESG research efforts depending on the extent of the possible risks for each company.

The following graphic illustrates how ESG research is integrated across the three stages of investment. ESG efforts are typically concentrated in the pre-investment and investment phases. However, we do see value in monitoring progress for specific companies within our investment universes where that company may move back into the pre-investment phase, or where that company requires monitoring for benchmarking purposes.

ESK risk

Monitoring investment universe	Pre-investment	Investment period
	✓ Investment analyst considers material ESG exposures ✓ Research input from ESG team, where required **Example:** Accenture ESG research conducted by analyst and ESG team to gain comfort on human capital risks.	✓ Annual review of ESG disclosures, including climate change and modern slavery risk assessments ✓ Monitoring controversies and company ESG updates ✓ Broad ESG engagement as part of financial meetings, by the investment analyst and ESG team where required **Example:** Cochlear Analyst remains aware of relevant ESG topics and engages with management on an ongoing basis.
✓ Company ESG/ sustainability approach and updates ✓ Progress on controversies ✓ General company engagement within financial updates and group meetings, mostly by investment analyst ✓ Closer monitoring and engagement for high-risk companies **Example:** Fortescue Metals Group Maintaining engagement on governance, employee and social license aspects.	✓ ESG materiality assessment ✓ Company ESG engagement ✓ Early input from Sustainable Compliance Committee for fund suitability **Example:** MercadoLibre Disclosure reviews and company engagement on material ESG topics conducted by analyst and ESG team.	✓ Thorough review of ESG disclosures, company ESG updates and monitoring controversies ✓ Dedicated ESG engagement with focus on objectives, where appropriate ✓ Discuss at quarterly ESG review meeting with investment team **Example:** Nestle Reviewing progress on ESG strategy and engage on core risks such as human rights, packaging and responsible sourcing.
	✓ ESG materiality assessment and summary report ✓ In-depth company engagement ✓ Third-party expert views and specific key issue research ✓ Early input from Sustainable Compliance Committee for fund suitability and ESG perspectives **Example:** Lynas Initiated multiple engagements with senior management, spoke to experts in rare earth processing and Malaysian politics and cited radiation testing documents to gain comfort on ESG risks.	✓ Aim to engage regularly with companies and examine ESG disclosures in detail ✓ Comprehensive thematic research for material topics, with expert views where required ✓ Investment analyst is most engaged and is responsible for adjusting investment decisions based on ESG research outcomes ✓ Escalation of engagement objectives (for example, communicating issues to Board) **Example:** Santos Continued engagement on improving climate disclosures to support its net zero target, issuing a letter to the Board with specific requests to improve the overall strategy and communication to shareholders.

ESG integration review process

In FY22, we introduced a more structured ESG integration review process. Material issues and associated risks for each company are determined by the ESG and investment team and can be updated at any time.

Regardless, we believe that a structured review process is necessary to drive consistency and accountability across the various teams.

Integrating ESG considerations into the investment process will vary depending on the individual industry and company circumstance. This process will primarily focus on building knowledge of the potential financial impact that an ESG risk may have on a company, the extent of the possible impact and its time horizon.

There are some circumstances, as in the case of tobacco producers or thermal coal production, where a blanket exclusion across all funds is appropriate. Depending on the situation, ESG factors may also be quantitatively reflected in financial modelling. At times, the potential impact of ESG risks may be so significant that an investment is considered inappropriate or divestment from a particular stock is warranted. **Table 1** highlights several cases where ESG integration has held investment implications.

ESG data providers

Third-party ESG data providers are used as an input into our ESG assessment and are a tool to analyse a company's ESG profile. We did not make any changes to our ESG data providers in FY22.

See Appendix 3 for third-party ESG metrics including ESG ratings and scores of our portfolios compared to the benchmark.

Table 1. Examples of ESG integration in the past year

Company	Listed	Integration	Overview
Bapcor (BAP)	Australia	Divestment	**Issue:** In late 2021, the board of Bapcor terminated its longstanding and well-performing CEO despite the exit date having already been set a year later. We engaged with the board on multiple occasions and, although we were assured the CEO had not been terminated for any misbehaviour or misconduct, we did not receive a plausible reason for the termination. **Investment decision:** We concluded that there was a significant governance risk emerging and divested shortly afterwards once the market was fully informed.
Lynas (LYC)	Australia	Engagement/ Investment	**Issue:** Lynas has been operating in Malaysia for more than 10 years to process rare earths. During this time its presence has become highly politicised with the community concerned about possible contamination from radioactive waste. During 2019 and 2020, a number of changes were negotiated with the Malaysian government to maintain Lynas' operating licence. 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. Due to the challenging relationship with the Malaysian community, we believed there was a strong possibility that Lynas may experience delays in meeting the 2023 target and could possibly be asked to remove all operations from Malaysia over time. **Engagement:** Before initiating investment, we engaged with the company (including members of the community team), sought reports on the level of radioactivity of the waste from the processing facility in Malaysia, and spoke to experts in Malaysian politics and rare earths to better understand the issue.
Lynas (LYC)	Australia	Engagement/ Investment	**Investment decisions:** After engaging with the company and conducting further research we were reasonably comfortable that the ESG risk profile of Lynas is improving. Regardless, we undertook the following actions to mitigate the ESG risk: • We did not invest until the agreement with the Malaysian government was finalised • We invested in the company initially with a small position to monitor the social licence risk • We built the portfolio position further over time, as our confidence built in the investment case and the company's ability to manage the ESG risks
Apple (AAPL)	US	Valuation	**Issue:** Anti-trust risk is an important social and governance issue for many of the large US technology companies. Apple is exposed to ongoing legal risk related to the AppStore, and whether it has potential monopolistic power as a gateway and payment method. We used a quantitative approach to integrate this risk into our earnings models, running earnings sensitivities on different levels of AppStore commissions depending on various legal outcomes. We found that the one-time negative earnings impact ranged from only 4% to 5.5%. Furthermore, the probability of each of these outcomes actually occurring in the near or medium terms was relatively low given the pace of legal closure and the ability to appeal in US courts. As such, the probability of a significantly negative earnings due to AppStore related anti-trust outcomes was deemed to be manageable, as were the related social and governance risks. **Investment decision:** We maintained our position in Apple.
Albemarle (ALB)	US	Investment weight	**Issue:** As a large global lithium miner, Albemarle plays a pivotal role in the low carbon transition but presents with material ESG risks, similar to other miners. **Engagement:** Before initiating a position in Albemarle we assessed the company's ESG exposure and engaged with the sustainability manager on multiple occasions to discuss its exposure to social license risks, water management, health & safety, and scope three emissions. This increased our comfort that the company's ESG exposures are well considered. Albemarle has emissions reduction targets in place, water management initiatives in high water stressed areas and has maintained strong community relationships through Chile and Canada, with limited historical controversy. **Investment decision:** We have invested in Albemarle but have limited the position size given the level of ESG risks and overall cyclicality within the industry. We would like to see the company exit its' catalyst business and intend to continue this discussion.
Activision Blizzard (ATVI)	US	Divestment	**Issue:** In June 2021, we engaged with Activision regarding the pay package of the company's CEO which we felt was significantly inflated compared to peers. The outcome for 2020 was particularly outsized at $154m. A clause in the 2016 contract provided a bonus based on the total shareholder return of over a 4-year period, that, given the lift in the Activision share price accounted for $124m of the payment. **Proxy voting and engagement:** We voted against the resolution regarding the CEO's remuneration. However, our engagement with the company also raised additional questions regarding company culture and governance. We concluded that governance risks had increased following the acquisition of Blizzard. Our view was that the company had failed to address ESG risks in the combined company. **Investment decision:** As a result of these concerns, we sold the stock in July 2021. In subsequent months, several high-profile allegations of systematic sexual harassment and unfair treatment of female employees were made. Ultimately, this culminated in a lawsuit being brought against the company by the California Department of Fair Employment, accusing the company of violating the state's civil rights and equal pay laws. This led to significant underperformance in the stock, before Microsoft's recent take-over bid.

Stewardship

In FY22 we:

- Adopted a Stewardship Policy which covers the four components of our approach.
- Joined a collaborative engagement with FAIRR on antimicrobial resistance. We also joined an additional Climate Action100+ engagement for Walmart as support investors. We are now part of four Climate Action100+ engagements.
- Initiated the roll-out of engagement plans for the global and domestic investment teams. The goal is to establish forward-looking engagement strategies for specific holdings that can be tracked over time. We have also introduced escalation pathways for certain issues where it is appropriate (see Santos example below). These plans will be finalised by the end of this calendar year and will be updated semi-regularly as issues progress and holdings within the portfolios change.
- Centralised proxy voting oversight with the ESG team. Decision making for each specific vote is the responsibility of the relevant investment team member, however having the process centralised under the ESG team facilitates the tracking of key trends and voting decisions over time.

As investors, we have the ability to influence the behaviour and actions of companies we own.

We take this responsibility very seriously and are committed, where possible, to use this influence to reduce environmental, social and governance risks over the short, medium and longer term in order to maximise shareholder value for our clients.

There are four components of our approach to stewardship.

Company engagement	Proxy voting	Research and thought leadership	Collaborative engagement

Stewardship activities can be focused on company specific ESG factors like executive remuneration, as well as issues with broader impacts like climate change.

We are disciplined in our approach to stewardship and generally only actively engage when there is a specific issue to address, including where further information is needed for our ESG materiality process. We are conscious that many investors use corporate engagement as part of their responsible investment strategies and companies can therefore be overwhelmed with queries and requests for engagement.

Stewardship is the responsibility of all members of the Alphinity team. This includes the ESG team and the investment teams. Stewardship priorities and activities are identified in collaboration between both teams, however decision making for proxy voting is ultimately the responsibility of the relevant individual from the investment teams.

Engagement highlights

Engagement is an important part of understanding a company's ESG risks and opportunities with a view to maximising returns and managing risk. Consequently, we aim to engage with all companies in which we have invested, or are seeking to invest in. This creates the opportunity to advocate for stronger ESG practices, sustainability outcomes, and improved disclosures to enhance the company's management of material ESG issues.

We engage primarily through one-on-one meetings but can also take place through small group meetings and collaborative engagements. We are involved in various industry groups such as the Principles for Responsible Investment, Responsible Investment Association of Australiasia, Climate Action 100+, 40:40 Vision and FAIRR.

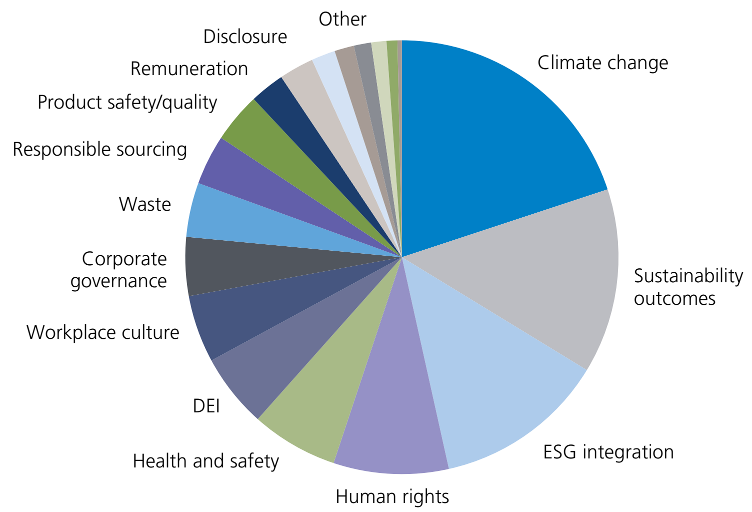
We record our ESG engagement activities in an engagement log and monitor progress against specific engagement objectives, an area which has received greater emphasis in the past year.

ESG engagement highlights

In FY22 we held 168 company engagements[4] that covered a range of ESG and sustainability topics **(Figure 6)**. The most common were climate change, sustainability outcomes, the integration of ESG, human rights, health and safety, and the broader theme of diversity and inclusion that covers workplace culture. Common discussion points within these high-level topics are illustrated in **Table 2**.

Generally these meetings are attended by members of the Alphinity investment and ESG teams, alongside relevant representative from the company. This may include senior managers, executives, sustainability specialists, CEOs and board members.

Figure 6. FY22 common engagement topics

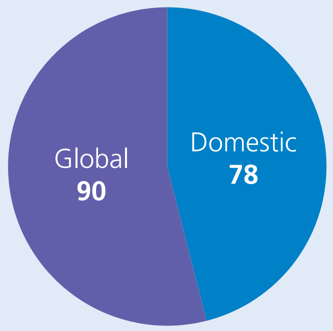


[4] This does not include general investment meetings held throughout the year, for example during reporting season, where the primary focus is on financial performance, although material ESG matters are frequently raised in these meetings.

Key FY22 stats

168 dedicated ESG meeting with 133 companies

Number of engagements



Discussion of E, S and G topics

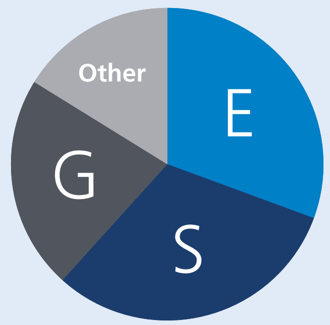


Table 2. FY22 engagement summary

ESG topic	Common focus areas	Proportion of meetings where topic was discussed	
		Domestic	Global
Climate change	Quality of carbon commitments, feasibility of decarbonisation pathways, strategy for scope 1, 2 and 3 emissions, carbon offsets	62%	83%
Sustainability outcomes	Clarity on revenues to guide the SDG analysis, sustainable opportunities	35%	64%
ESG integration	ESG governance and oversight, remuneration linked to non-financial metrics, identification and management of material ESG issues	36%	57%
Human rights	Supply chain risks (by location, commodity), ownership and oversight, improved disclosure (audits, incidents, remediation), labour hire agencies	14%	47%
Health and safety	Health and safety metrics (lead and lag), fatalities, scope of contract workforce and related risks	19%	28%
Diversity, equity and inclusion	Participation of underrepresented groups (gender, ethnicity), diversity of senior management, workplace culture and broader inclusion	24%	17%

A full list of ESG engagements conducted in FY22 are included in Appendix 1.

CASE STUDY I ENGAGEMENT I DOMESTIC

Engaging with Santos for climate action

Santos is one of Australia's largest producers of oil and gas. It also has one of the highest emissions intensities in the Australian benchmark.

In December 2020, Santos made a commitment to achieve net zero operational emissions by 2040. Santos planned to add carbon capture and storage facilities to existing and new gas assets to firstly capture and store reservoir emissions, and secondly, convert methane to blue hydrogen, storing the excess carbon dioxide. Longer term, Santos also plans to invest and develop other new energy opportunities.

In May 2022, Santos proposed its Climate Change Plan to shareholders for vote and 37% of shareholders voted against the plan on the basis that there was insufficient detail, and an over reliance on carbon capture and storage technology.

Since Santos first made its announcement about net zero, we have been engaging with the company to support clearer disclosures related to its climate strategy.

In FY21 and FY22 we have engaged six times with Santos' senior management, including the CEO, specifically about the company's commitments and net zero strategy.

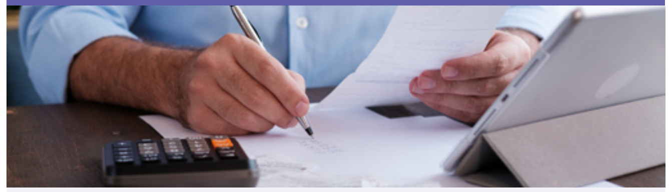
Following the negative result at the AGM, we determined that our engagement should be escalated and subsequently issued a letter to the board with clear requests to improve the overall strategy and disclosures to shareholders.

Examples of the specific asks outlined within the letter are:

- Set a medium/long term goal around production of clean fuel as a percentage of the overall fuel mix (including a timeframe)
- Measure rather than estimate methane emissions
- Disclose further detail on the emissions reduction plans for each asset

We are yet to receive a formal response from the board.

CASE STUDY I ENGAGEMENT I GLOBAL



Engagement themes for global financial companies

Financial institutions will need to play a critical role in mobilising capital globally to mitigate climate change and support the transition to a more sustainable global economy. Climate change and social factors can also pose significant risks to a bank's assets and reputation. Other associated issues and themes include responsible banking, financial inclusion, and of course appropriate operational and credit risk management.

In analysing the global banks, we found a wide variation in approaches and policies, in particular towards their climate-related disclosures and commitments towards financial inclusion.

Nearly 20% of global ESG engagements in FY22 were with financial companies. Engaging on consistent matters better guides our view on a company's ESG risks and leadership. General areas of engagement are:

Climate

- Fossil fuel financing policies, and reporting against the Equator Principles
- Disclosing loan book exposures to thermal coal, oil and gas (differentiating between upstream, midstream, downstream)
- Calculating financed emissions, and estimating the trajectory going forward

Financial inclusion

- Supporting minority groups and 'underbanked' markets
- Access to finance and benefits

Governance

- Know your client processes
- ESG resourcing and integration
- Managing controversial sectors, regions or businesses
- Ethical use and management of data

The opportunity that banks have to improve financial inclusion, finance sustainable solutions and operate and expand responsibly into emerging markets remain front of mind.

CASE STUDY I STEWARDSHIP I GLOBAL

FAIRR collaborative engagement with Zoetis

There is rising concern around the financial and reputational impacts associated with antimicrobial use in animal agriculture. Antimicrobial Resistance (AMR) has been declared one of the top ten global health threats by the World Health Organisation. There is societal pressure, consumer awareness and regulatory focus on this risk, driving policies such as the EU's recent and world-first ban on prophylaxis.

This year we signed on to a collaborative initiative with FAIRR that strives for greater disclosure over how animal pharmaceutical companies are addressing the risk of AMR. Our primary interest was Zoetis' role in providing antibiotics to the agricultural market for growth promotion, and the misuse of antibiotics to prevent a disease (prophylaxis) rather than for its intended purpose (treatment).

As shareholders of Zoetis, we sought engagement with the company and clarified that:

- Zoetis is taking an active role in advanced medication such as vaccines and injectable antibiotics used for treating disease, to reduce the need for antibiotic feed additives.
- Antibiotics are no longer core business and have been replaced with more strategic opportunities in diagnostic tools, genetic profiling, and vaccines.
- The company is a strong proponent of veterinary oversight and correct application, with most sales through direct engagement with vets, rather than farm owners, which improves the responsible application of antibiotics.

Taking part in these dialogues provides the opportunity for companies to strengthen their collaboration with shareholders, manage investor expectations, and share best practices. As investors, we were able to meet with the company and delve into the topic, subsequently sharing our findings with FAIRR and coming to a preliminary conclusion that Zoetis appears to be ahead of many other pharmaceutical companies in the management of AMR risks.

FY22 engagement outcomes

We engage for a variety of different reasons:

- **To inform our view on ESG risks and opportunities**
- **Stay up to date on company announcements and material issues**
- **Seek clarifications on controversies or other relevant news items**
- **Encourage improvements in line with our pre-determined engagement objectives**

In FY22 we initiated more structured engagement approaches for specific companies across our funds. The purpose of these plans was to incorporate timelines and escalation strategies alongside engagement objectives for specific stocks. Many engagement objectives have multi-year timelines and results aren't always achieved year on year. The following examples highlight some specific engagement outcomes for this past year.

We recognise that our engagement with these companies may not necessarily have been a driving influence in the positive outcomes listed below. Regardless, we do believe that we have a positive role to play in encouraging and influencing changes in all the companies we engage with, to better manage ESG risks and also realise potential opportunities where possible.

Company	Listed	Thematic	Objective(s)	Summary
CSL	Australia	Customer	• Assess ethical issues related to placement of donor centres in low-income regions • Encourage a commitment to do more advocacy in donor health monitoring	**Background:** CSL is one of the world's largest biotechnology companies that specialise in plasma collection and vaccines. Our ESG analysis identified that donor health was a material risk for CSL and could create future regulatory pressures if not addressed adequately. Specifically, we identified a concern in the US market where the frequency of donations is higher than in other places like the UK and Australia. As such, there is potential that the US regulators may change allowable donation rates if concern about long-term donor health, and benefits for the community, is not addressed. **Engagement:** We started engaging with CSL on this matter in late 2020 after completing an ESG review of the business. This was also following a report which highlights a number of concerns related to plasma locations in the US, exposure to low socio-economic groups, and potential impacts to donor health. **Outcome:** In June 2022 CSL published a new ESG strategy including a focus on donor health. We have subsequently reduced the ESG risk level for this factor.
Wesfarmers	Australia	Emissions	• Set emissions reduction targets for WESCEF and improve carbon disclosures	**Engagement:** In 2021 we identified gaps in WesCEF's climate commitments compared to peers. Specifically, we identified that WesCEF did not have a carbon commitment in place and did not disclose metrics which would allow a comparison with peers in the ammonium nitrate and fertiliser space. We engaged directly with the business to discuss plans and aspirations to set emissions goals. **Outcome:** In April 2022, WesCEF published new climate goals which include a 30% reduction by 2030 and net zero by 2050.
CSR	Australia	Quality	• Confirm and disclose Quality Management Systems (QMS) certifications	**Engagement:** We engaged with CSR across multiple meetings to discuss the company's quality management system and confirm coverage across the business. **Outcome:** Through the conversations we confirmed that CSR appropriately applied quality management across its operations. In the 2022 ESG disclosures, CSR included a new disclosure specifically addressing our queries on quality.
DSM	Netherlands	Human rights	• Assess emissions reduction strategy • Clarify modern slavery risk management and approach	**Engagement:** Since early 2021, we have engaged three times with DSM on a range of ESG issues including climate, product quality, health and safety, and human rights. We provided specific written feedback to DSM on the gaps in its human rights disclosures. **Outcome:** In August 2021 DSM released new carbon targets, updated in July 2022 to extend to scope 3 absolute reduction efforts. We have also noted some improvements in human rights disclosures however this objective has not been fully addressed.
Hain Celestial	US	Health	• Encourage clarity on what is 'healthier' in its product portfolio	**Engagement:** As part of our due diligence review of Hain Celestial for the Global Sustainable Equity Fund, we identified a lack of comprehensive strategy for what is 'healthier' in its product portfolios. **Outcome:** Committed to adopt and implement a Healthier Products Standards by 2025.

Proxy voting

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 clients' 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. We apply a consistent voting policy with additional guiding principles. See our Stewardship Policy for further details.

FY22 proxy voting statistics and outcomes

In FY22, across our global and domestic equity funds, we voted on more than 1500 individual resolutions. Of these, 86% were proposed by management and 11% were proposed by shareholders.

On average across all funds:

We voted on **100%** of all proposals put to shareholders.

We voted in line with management **92%** of the time.

We voted in favour of shareholder lead proposals **32%** of the time.

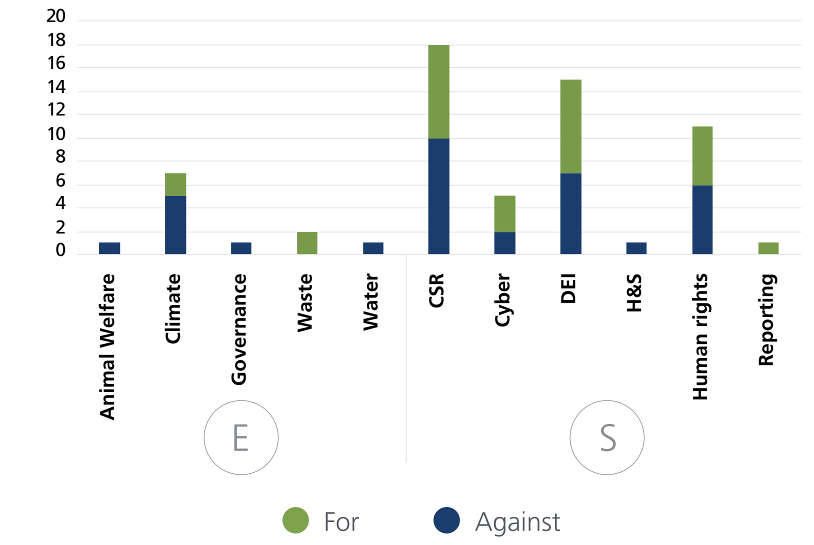
Shareholder resolutions

The number of shareholder resolutions that are proposed at company AGMs is increasing year on year. These proposals range from requests for company management to undertake further analysis on certain issues (for example, sexual harassment) to increased disclosures on political donations.

Currently, the bulk of shareholder proposals we have considered are for companies listed in the UK, US, and throughout Europe. In Australia, any successful shareholder proposal is advisory only and the outcome is not binding on the company. Australian corporations law already allows a reasonable degree of shareholder democracy, with resolutions able to be filed with the support of either 100 individual shareholders, or shareholders representing 5% of the total shares of the company. We do not consider these provisions to be particularly onerous. Many shareholder resolutions, however, seek to bypass these provisions by proposing a change to the company's constitution, which can only be passed with a 75% vote in favour. We are generally opposed to changing companies' constitutions except in extreme circumstances. However, from time to time the resolution itself might have merit, in which case we will support it that part of the proposal.

As with all resolutions, any shareholder proposal is reviewed on its individual merits and a voting position is determined based on the specifics of each company and the relevant proposal. In FY22, there were 63 unique shareholder resolutions proposed for companies across our domestic and global funds. **Figure 7** illustrates the distribution of proposals across different ESG themes, and our vote instruction for our global holdings, given the high number of shareholder resolutions put forward.

Figure 7. Global shareholder proposal votes by environmental and social topic



CASE STUDY I PROXY VOTING I DOMESTIC

Goodman Group
November 2021 AGM

We voted **against** three proposals related to issuance of the performance rights for the CEO and two executives:

- We were opposed to these proposals using a so-called "Fair Value" calculation for awarding these shares.
- We engaged directly with board directors. The company subsequently agreed to use "Face Value" calculations for future performance rights issuance.

Rio Tinto
March 2022 AGM

We voted **against** the re-election of the chair of the Remuneration Committee based on concern about accountability:

- We voted against the same director in 2021.
- This year, the concern was related to the very small (5%) clawback applied to executives bonuses following the report into workplace culture that highlighted a number of serious issues related to bulling, racism and sexual harassment within the organisation.

Woodside Energy
March 2022 AGM

We voted **against** the climate transition plan due to gaps in the company's strategy to invest in new energy. We would like to see clarity on the actions to achieve the 2030 and 2050 targets, less reliance on offsetting and stronger measures of climate action in executive remuneration.

CASE STUDY I PROXY VOTING I GLOBAL

Alphabet
January 2022 AGM

We voted **for** three shareholder proposals that aligned with our assessment of material ESG issues:

- Report on risks of doing business in countries with significant human rights concerns.
- Disclose more quantitative and qualitative information on algorithmic systems.
- Commission third-party assessment of company's management of misinformation.

Chubb
May 2022 AGM

Climate change shareholder proposals:

- We voted **against** a proposal that Chubb stops underwriting fossil fuels (we believe that an orderly transition away from fossil fuel is required).
- We voted **for** a proposal that Chubb reports on efforts to reduce GHG emissions associated with underwriting, insuring, and investing.

Apple
March 2022 AGM

We voted **against** an advisory vote to ratify named executive officers' compensation due to concerns around equity award design, and inadequate performance criteria.

Sustainable investing

In FY22, we have made a number of improvements to the SDG analysis for consistency and oversight:

- Developed an SDG methodology document with consistent sector-level SDG alignment assumptions (positive and negative).
- Introduced a formal review process of the FY22 SDG data with a representative of the Sustainable Compliance Committee to ensure consistency across the SDG alignment of the funds, validate the SDG alignment against the sector assumptions and revise our methodology where necessary.
- Limited assurance performed by KPMG over the SDG Alignment Framework and Carbon metrics. KPMG's limited assurance report is attached to this report.
- Completed comparative and thematic level reviews to guide the assessment of grey areas, such as the healthiness of food and the sustainability of fertilisers.

Our sustainable funds aim to invest in companies that we assess as having a net positive contribution to the United Nation's Sustainable Development Goals. The SDGs aim to tackle disadvantage and the most pressing environmental and social challenges. These include, amongst others, a focus on poverty and inequality, health, sustainable production and consumption, biodiversity, water, waste, and climate change. We believe that companies play a role to innovate, scale and deliver these solutions.

With the growing demand for responsible investment products, and increased scrutiny around ESG investing, our commitment is to offer sustainable funds to the market that are uniquely underpinned by a rigorous and transparent approach to sustainability.

Our sustainable funds

Alphinity has two sustainable funds: the Australian Sustainable Share Fund and the Global Sustainable Equity Fund. These funds both use the same approach, which aims to invest in companies which have a net positive alignment with one or more of the 17 SDGs, that exceed our minimum ESG criteria, and which meet Alphinity's investment criteria of investing in quality, undervalued companies undergoing a positive earnings revision cycle. The SDG characteristics of our funds in FY22 is presented in **Figure 8**.

In partnership with governments, institutions, private entities and non-government organisations, we believe that public companies have a prominent role to deliver sustainable solutions to the market. Through their scale, investments, and the talent they attract, companies are driven to innovate products and services that have the potential to address social and environmental challenges.

Alignment to the SDGs

Although the SDGs were not developed for investors, we believe they are the most suitable framework for us to assess companies for potential inclusion in the sustainable funds. This analysis is conducted by internal ESG professionals, who have access to the investment analyst, and is overseen by the relevant Sustainable Compliance Committee for each fund. Insights gained through company engagement can be used to inform the SDG analysis.

The Sustainable Compliance Committees are made up of two independent experts including Elaine Prior and Melissa Stewart, and two portfolio managers (biographies available in the Sustainable Investing Factsheet). The role of the committee is to oversee the SDG analysis methodology and application, approve the sustainable universes, provide guidance on company engagements, and assist the team in discussing and debating various controversial sustainability topics as they arise.

Features of our sustainable funds

SUSTAINABILITY

An investable universe of companies that can have a net positive alignment to one or more of the 17 United Nation's Sustainable Development Goals (SDGs)

EXCLUSIONS

Hard exclusions defined by a charter for activities that are incongruent with the SDGs.

SUSTAINABLE COMPLIANCE COMMITTEE

Oversight and governance by a Sustainable Compliance Committee, which includes two external experts, to help ensure compliance with the fund's charter and approve the investable universe

STEWARDSHIP

Active ownership including company engagement and proxy voting supports our analysis of sustainability and ESG and helps to advocate for change

ALPHINITY INVESTMENT PROCESS

An established team with a disciplined and repeatable investment process: Finding high-quality businesses with strong earnings that are under appreciated by the market

Figure 8. Positive contribution to SDGs from our FY22 sustainable fund holdings

We found that the companies we held through the year contributed most to eleven SDGs. These underly four central thematics: sustainable cities, climate action, inclusive economies and healthy lives.

THEMATIC	SDG	DOMESTIC		GLOBAL		COMPANY CONTRIBUTION TO THE SDGS
		NUMBER OF COMPANIES WITH POSITIVE ALIGNMENT				
		FY22 holdings	Top 3 contributors	FY22 holdings	Top 3 contributors	
SUSTAINABLE CITIES	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	21	RioTinto, Goodman, FMG	28	Danaher, ASML, Prologis	The potential of disruptive innovation to address complex sustainability issues is growing with technology and digitalisation, from manufacturing sustainable infrastructure to digital, cleaner and more efficient industrial processes. **Aligned SDG targets:** 9.1, 9.2, 9.4, 9.5
SUSTAINABLE CITIES	11 SUSTAINABLE CITIES AND COMMUNITIES	23	RioTinto, JH, FMG	16	HCA Healthcare, OTIS, Tesla	Companies support our cities through resilient buildings, sustainable transport systems, improved waste collection and recycling infrastructure and green electricity systems that can reduce our impact on the environment. **Aligned SDG targets:** 11.1, 11.2, 11.3, 11.4, 11.5, 11.6
SUSTAINABLE CITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	5	Sims Metal Management, CSR, BlueScope Steel	9	Lowe's, Ball, DSM	With finite resources comes the growing value in repurposing products and services. Companies, together with consumers, can create the market and infrastructure for a circular economy while reducing pollution and ecosystem damage. **Aligned SDG targets:** 12.2, 12.3, 12.4, 12.5, 12.6
CLIMATE ACTION	7 AFFORDABLE AND CLEAN ENERGY	6	RioTinto, igo, Lynas Rare Earths	5	Schneider Electric, Tesla, Partners Group	A growing population requires affordable and reliable energy systems that are smarter and offer efficient power delivery. Transition metals play a critical part in enabling renewable energy storage and the electrification of our economy. **Aligned SDG targets:** 7.1, 7.2, 7.3
CLIMATE ACTION	13 CLIMATE ACTION	5	RioTinto, FMG, BHP	7	Schneider Electric, Tesla, Sika	Corporations are adopting new approaches to sustainable energy generation and increasingly addressing their own emissions footprints, while building our cities and technology systems to be more resilient to adverse climate impacts. **Aligned SDG targets:** 13.1, 13.2, 13.3

THEMATIC	SDG	DOMESTIC		GLOBAL		COMPANY CONTRIBUTION TO THE SDGS
		NUMBER OF COMPANIES WITH POSITIVE ALIGNMENT				
		FY22 holdings	Top 3 contributors	FY22 holdings	Top 3 contributors	
INCLUSIVE ECONOMIES	1 NO POVERTY	7	nab, CommonwealthBank, ANZ	5	mercado libre, ERSTE, ING	Poverty remains a significant challenge in our world. Offering the underbanked capital through unique financial service models can support the poor gain equal rights to economic resources. **Aligned SDG targets:** 1.4
INCLUSIVE ECONOMIES	4 QUALITY EDUCATION	3	JB HI-FI, Cochlear, Wesfarmers	4	Microsoft, EssilorLuxottica, Alphabet	Quality education is key to social participation, improved job prospects and well-being. Companies have changed the way we access information by improving technology, remote software and health devices to facilitate learning for all. **Aligned SDG targets:** 4.2, 4.3, 4.4
INCLUSIVE ECONOMIES	8 DECENT WORK AND ECONOMIC GROWTH	20	CommonwealthBank, nab, MACQUARIE	27	Microsoft, Apple, Alphabet	Economic productivity and growth is a fundamental benefit of technology companies, diversified financials, investment managers and those that support e-commerce and logistics. **Aligned SDG targets:** 8.1, 8.2, 8.5, 8.10
INCLUSIVE ECONOMIES	10 REDUCED INEQUALITIES	9	Lifestyle Communities, carsales, Wesfarmers	7	Apple, mercado libre, ERSTE	Companies can service the underrepresented and lower income groups in society by promoting the access of products and services, especially in emerging markets. **Aligned SDG targets:** 10.1, 10.2, 10.5, 10.7
HEALTHY LIVES	2 ZERO HUNGER	4	costa, nab, Woolworths	8	Chipotle, DSM, Nomad Foods	Corporations play a critical role in forming food security, improving nutrition and developing sustainable agricultural systems that halt the degradation of the planet. **Aligned SDG targets:** 2.1, 2.2, 2.3, 2.4, 2.5
HEALTHY LIVES	3 GOOD HEALTH AND WELL-BEING	12	CSL, medibank, Sonic Healthcare	16	Merck, Lilly, United Healthcare	Supporting health and well-being forms part of many company strategies, from critical medication and innovative research to improving food systems and offering health care services. **Aligned SDG targets:** 3.1, 3.3, 3.4, 3.5, 3.6, 3.8

The SDG analysis process

For a company to be part of the investible universe for our sustainable funds, it must:

- Have a net positive revenue alignment to the SDGs
- Not generate revenues (above the relevant threshold) from activities that are excluded from the fund, such as fossil fuel production, alcohol and tobacco production, and gambling. These activities are incongruent to achieving the SDGs.
- Be approved by the Sustainable Compliance Committee
- Meet our minimum ESG criteria, consistent with our firm wide approach to ESG

It's important to highlight that the SDG analysis process is a binary decision to confirm whether a stock can be added to the sustainable universe. Once a stock is approved for the universe, the investment team apply the same Alphinity investment process which is used across all investment strategies.

A company's alignment with the SDGs is assessed using an in-house assessment methodology. This quantitatively aligns the positive and negative contributions the products or services of a company makes towards achieving each of the SDGs, to arrive at a net score.

The revenue alignment to the SDG is informed by company disclosures (financial and ESG documents), company engagement and external research. Company revenues are considered for positive or negative alignment to the 169 SDG targets that underpin the 17 goals. This provides greater insight and clarity to the intent of the goals and therefore requires less interpretation.

A materiality factor (low, medium or high) is also applied as a multiplier in the scoring system to reflect the strength of each segment's alignment with the various goals. An example of this is provided for a mining company in **Figure 9**. To support consistency in this analysis, Alphinity has finalised a methodology including sector-level assumptions that guide the SDG alignment.

We acknowledge that the SDG analysis is relatively subjective. It does not always align specifically to the assumptions, due to the unique nature of many companies and the detail that sits behind the positive and negative SDG target alignments. Nonetheless, we seek consistency and rigour and the assumptions are a starting point that guides this assessment.

This analysis is reviewed by the Sustainable Compliance Committees as new companies are added to the sustainable universe or sustainable funds, on a case-by-case basis where needed, and in full at least once per year. Further information on the SDG methodology is available in our Sustainable Investing Factsheet.

This year we also introduced a bi-annual review process with a member of the Sustainable Compliance Committee. This process ensures consistency across our analysis, validates the SDG alignment against the sector assumptions and provides feedback to revise our methodology where necessary.

Minimum ESG criteria

A company's ESG risk level is assessed using an in-house methodology and process. Inputs for this process include third-party ESG data provider research and ratings, company specific research, information gathered from company engagement, and other third-party reports. Any stock that is assessed at the highest risk level of 'avoid' has not met our minimum ESG risk level and is consequently not considered for inclusion into the fund.

This ESG risk process is consistent across all Alphinity funds. More information on this can be found earlier in this report.

Figure 9. Example SDG analysis of a mining company

Company segments	FY22 revenue %		SDG alignment: SDG	SDG target	Materiality	Score	Result	Comment
Copper	20%	+	7	7.3 Improve energy efficiency	Low	20% x 33% = 7%	7% + 20% + 13% = 40% **Positive**	Copper is a necessity in electrification, critical in our increasingly digital world for electric vehicles, wind and solar power as well as the infrastructure that transports and stores green energy.
			9	9.1 Develop quality, reliable, sustainable and resilient infrastructure	High	20% x 100% = 20%		
			11	11.3 Enhance inclusive and sustainable urbanization	Medium	20% x 66% = 13%		
Nickle	75%	+	7	7.2 Increase the share of renewable energy in the global energy mix	Low	75% x 33% = 25%	25% + 75% = 100% **Positive**	Nickel is a key component of Lithium-ion batteries, steel alloys and energy storage systems used for renewable energy resources.
			9	9.1 Develop quality, reliable, sustainable and resilient infrastructure	High	75% x 100% = 75%		
Lithium	5%	+	7	7.2 Increase the share of renewable energy in the global energy mix	High	5% x 100% = 5%	5% + 3% = 8% **Positive**	Lithium is critical in the global energy transition, used to electrify industrial processes, transport and other technological developments.
			9	9.1 Develop quality, reliable, sustainable and resilient infrastructure	Medium	5% x 66% = 3%		
All	100%	-	13	13.1 Strengthen resilience and adaptive capacity to climate-related hazards	Low	100% x -33% = -33%	-33% - 33% = -66% **Negative**	Mining and processing lithium, nickel and copper is emissions intensive.
			6	6.4 Increase water-use efficiency across all sectors	Low	100% x -33% = -33%		Mining uses significant amounts of water in processing.

FY22 SDG characteristics

The SDG contribution of a portfolio depends not just on the company-specific SDG positive and negative alignment, but also portfolio construction aspects such as stock and sector weights which are driven by investment conviction once the stock has been approved for the sustainable investment universe.

When assessing company revenue exposure across the SDGs, we identify the positive and negative alignments for each company. Although the negatives are important for us to gain a holistic sense of a company's sustainability, the SDG analysis and the committee's views determine whether the benefits outweigh the negative for any company accepted into the sustainable universe. For example, we take into account emissions intensive processes (SDG13) and operations that require significant volumes of water (SDG6). It is important to note that the identification of the negative SDG components can provide a clear engagement agenda with the company to assess how these negative impacts are mitigated and addressed.

The companies that constitute an equity portfolio necessarily changes over time, so in order to generate our FY22 SDG insights we created composite portfolios[5] for each sustainable fund that annualised month-end portfolio weights. All SDG alignments for the FY22 holdings are included in Appendix 2.

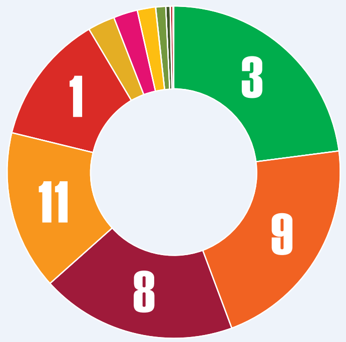
Strongest SDG alignment

Australian Sustainable Share Fund

Strongest alignment to **SDG3** due to a high portfolio exposure to healthcare with the clear benefits that companies such as CSL offer to people's health, with limited negative alignment to other SDGs.

The strong alignment to **SDG9** and **SDG11** reflects the SDG contribution of mining companies and other industrials that provide critical transition metals and materials such as lithium, copper, rare earth and iron ore that are important to develop our resilient cities, and support new energy systems such as renewable wind power.

The alignment to **SDG8** reflects technological innovators, financials and industrials that support capital flows through the economy (for example Transurban and the Commonwealth Bank of Australia). The alignment to **SDG1** is representative of relatively high portfolio tilt to the financials sector, that includes commercial banks and insurers.

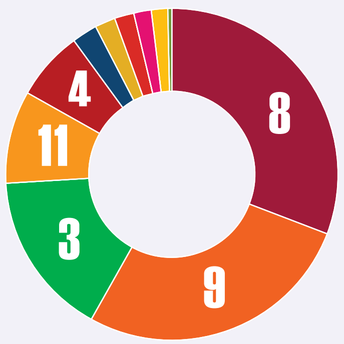


Global Sustainable Equity Fund

The strong alignment with **SDG8** is largely driven by technology innovators such as Microsoft, Google, and Nvidia. In addition, financials and insurers also contributed to SDG8 by offering critical services for our economy.

In contrast to what drives the domestic **SDG9** contribution, the global companies support more automated, electric and efficient industrial processed in the manufacturing space (Otis Elevators) and the semiconductor industry (ASML, Infineon, Onsemi). These companies also play an important role to electrify our cities and transport, contributing to **SDG11**, alongside EV manufacturers such as Tesla.

Across the global holdings there is slightly lower contribution to **SDG3** compared to domestic. Global pharmaceutical companies like Eli Lilly and Merck provide critical medication that address cancer and other diseases, alongside hospital and diagnostic tool providers (HCA, Danaher).



[5] The SDG data presented in this report is a weighted net SDG alignment. This takes into account the positive and negative SDG alignment for each company multiplied by the annualised portfolio weight (sum of month-end holding weight divided by 12) to reflect the SDG alignment of our investment activities through the year.

Answering difficult sustainability questions

Making decisions about sustainability requires judgements which can sometimes be complex and nuanced. Consequently, we use the SDGs as a way to systematically categorise and measure the sustainability of a company's product and services, however, there can still be many activities where the nature and materiality of SDG alignment is more challenging to determine.

Helping the ESG and investment teams work through these areas is one of the main functions of our Sustainable Compliance Committees. Having two external experts on the committees, independent of the investment team, provides us with an impartial third-party viewpoint when debating the sustainability credentials of a particular company, the details of our SDG analysis, key questions, or objectives for engagement.

Some examples of our work to address grey areas in FY22 are highlighted below:

Sustainability reviews and reports in FY22:

- The sustainability of fertiliser
- AI Framework and questionnaire for companies
- Comparison of SDG and ESG issues for major automakers
- Comparison of major Canadian banks
- Workplace culture
- Criteria to assess 'healthy' in the context of SDG2 and SDG3
- Sustainable agriculture and benefits of regenerative farming
- Nuclear and gas included in the EU Taxonomy

Typically, the process to address more challenging ESG and sustainability topics involves:

1. Identifying the key sustainability and ESG topics which need clarification
2. Conducting further analysis, company engagement, or research (including with external experts where necessary)
3. Preparing a summary report
4. Discussing and debating the relevant issues with the Sustainable Compliance Committee and members of the investment team when needed
5. Seeking approval from the Sustainable Compliance Committee as per the usual SDG analysis process

CASE STUDY I THEMATIC RESEARCH I DOMESTIC

Graincorp and fair pricing concerns for the sustainable share fund universe

Graincorp specialises in all things grain and oilseed. This includes storage, handling, and processing in the grain value chain.

As a result of the Sustainable Compliance Committee's concerns around Graincorp and fair pricing, we reached out to two organisations (Grain Growers, Grain Producers Australia) to seek an independent view on the matter. We found that there is enough competition on the east coast of Australia to ensure a reasonable grain price to domestic farmers and that although these companies engage with Graincorp and other exporters on ESG matters, fair pricing of grain has not been identified as a concern.

Additionally, the Australian Consumer and Competition Commission (ACCC) has strong oversight on policy setting and contract structures to manage the power imbalance between large exporters and small farmers with an agricultural unit closely monitoring this relationship. From a market perspective, Australian grain farmers might not have received as much of a premium in recent years but unfair pricing has not caused this. Rather, frictions in freight, logistics and transporting grain on trains to the ports are the main drivers.

CASE STUDY I THEMATIC RESEARCH I GLOBAL

Exploring the sustainability of biomass

Within the SDGs there are a number of targets to increase renewable energy and reduce fossil fuel reliance. Renewable energy is generally defined as energy from a source that is not depleted when used. Energy sourced from wind and solar are well recognised as renewable energy. However, there are other sources, like biomass and hydropower, where the benefits is less clear.

Earlier this year we initiated research on Drax as a potential company for the global sustainable investment universe. Drax operates a portfolio of biomass and hydro generation assets across the UK. It also oversees a biomass supply chain in North America that produces pellets from forestry offcuts, that would otherwise be discarded.

Drax has played a role in transitioning the UK energy grid, converting four of six power generating units from coal to biomass. Drax had formally ended coal operations in 2021 and planned closure of its two remaining coal units in September 2022.

To better understand the 'renewable energy case' of biomass, we engaged with the company directly and spoke to experts in the field. From our discussions, the main concern was related to the whole of life carbon impact and carbon accounting practices of the industry. Drax emphasised that they are piloting biomass with carbon capture technology. This would reduce the emissions produced through energy generation and improve the lifecycle carbon footprint of biomass.

Following our engagement, we did not approve Drax for the universe and did not confirm that we would define biomass as renewable in future. Further investigation is required to understand supply chain management and carbon accounting practices before we would positively align biomass to SDG7 (renewable energy) and SDG13 (climate action) in our sustainability assessment.

Launching the Global Sustainable Equity Fund

In June 2021, we extended our sustainable investing capability by launching the Alphinity Global Sustainable Equity Fund. Given the size of the potential investable universe, we see this fund as a great opportunity to invest in companies that provide product and services which support a sustainable future.

This fund utilises the same SDG assessment methodology and overall approach as the Australian Sustainable Share Fund, including a Sustainable Compliance Committee with the same two independent ESG and sustainability experts.

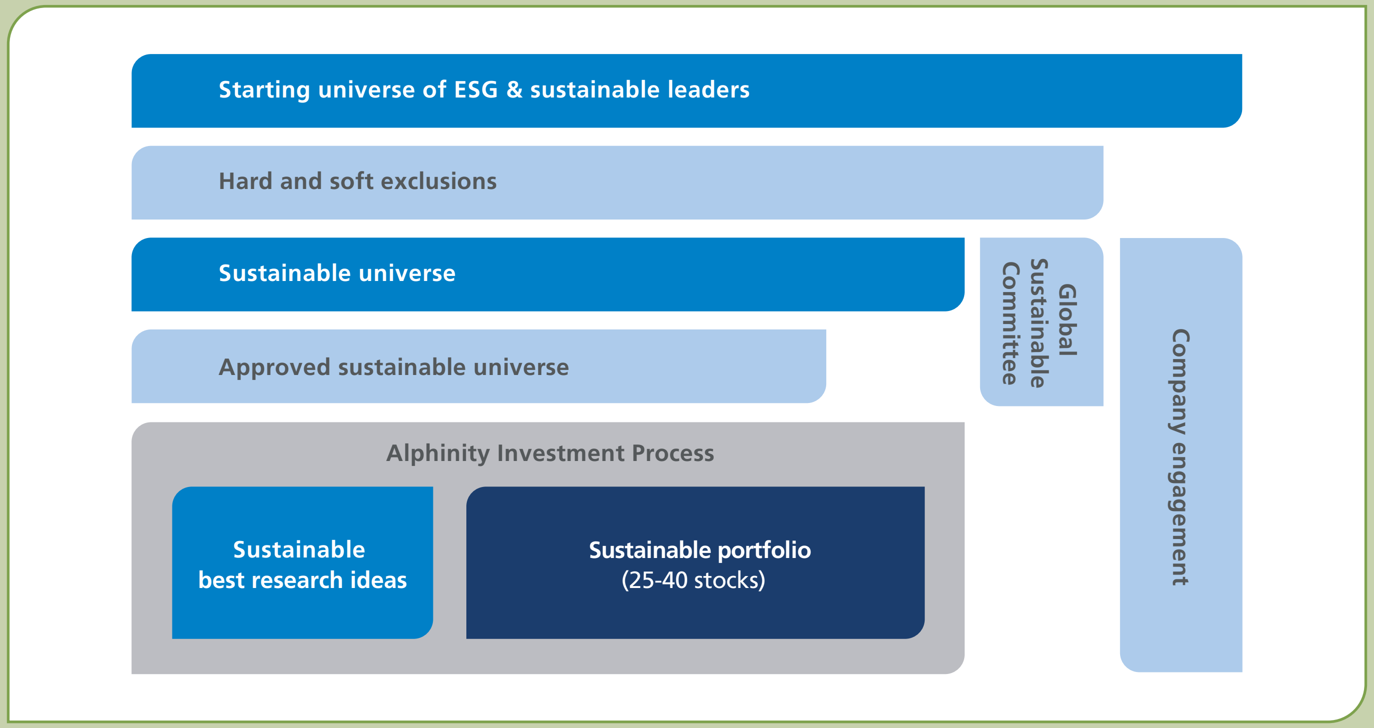
Universe construction

The main difference between the Australian Sustainable Share Fund and the Global Sustainable Equity Fund is the universe construction process. In the latter case, we have started with an initial universe of recognised ESG and sustainable leaders. These include, for example, constituents of various leading sustainability and ESG indices which are reviewed and changed on an ongoing basis. Where prospective sustainable companies are identified through other research channels, they can be added to the sustainable investment universe and screened in the same way to that of the indices.

We then apply negative screens to remove any hard exclusions relating to activities which are excluded by the fund investment charter, any soft exclusions for certain sectors, as well as companies with low ESG ratings,

Finally, companies are subject to our SDG analysis and approval from the Sustainable Compliance Committee.

This process is summarised below:



Approving companies for the Global Sustainable Fund

The role of the Sustainable Compliance Committee is to determine companies' inclusion in the sustainable universe, discuss ESG risks and opportunities across the portfolio, provide feedback on engagement, and discuss key thematics and research projects.

Since the fund was launched, we have focused on advancing our SDG analysis process and increasing the number of companies which have been approved by the committee and therefore included in the sustainable universe. As of 30 June 2022, 151 companies had been approved.

The approved list is dynamic, and, on occasion, a company will be withdrawn should further research, a development in the business or an engagement highlight a concern that would impact on its suitability for the fund.

MATERIAL ESG TOPICS

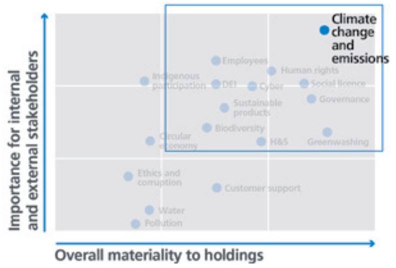
Climate change

Number of ESG engagements

Domestic: 48
(62% of meetings)

Global: 75
(83% of meetings)

Related policy:
Climate Change Statement



Alphinity acknowledges the findings of the Intergovernmental Panel on Climate Change and supports the United Nation's Paris Agreement to limit global warming to well below 2°C by 2050, compared to pre-industrial levels, and transition the economy to net zero. 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).

Our operational footprint

Alphinity's operational energy use is very small and consists of:

- Electricity used to power our single office in Sydney, New South Wales (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)

We have estimated[6] Alphinity's FY22 scope 2 carbon footprint to be 8.15 tonnes of CO_2e.[7] We are yet to calculate our scope 3 emissions. We do however, expect this to be relatively small due to the nature of the business and related upstream supply chains. In addition, all employees are encouraged to offset their business-related air travel.

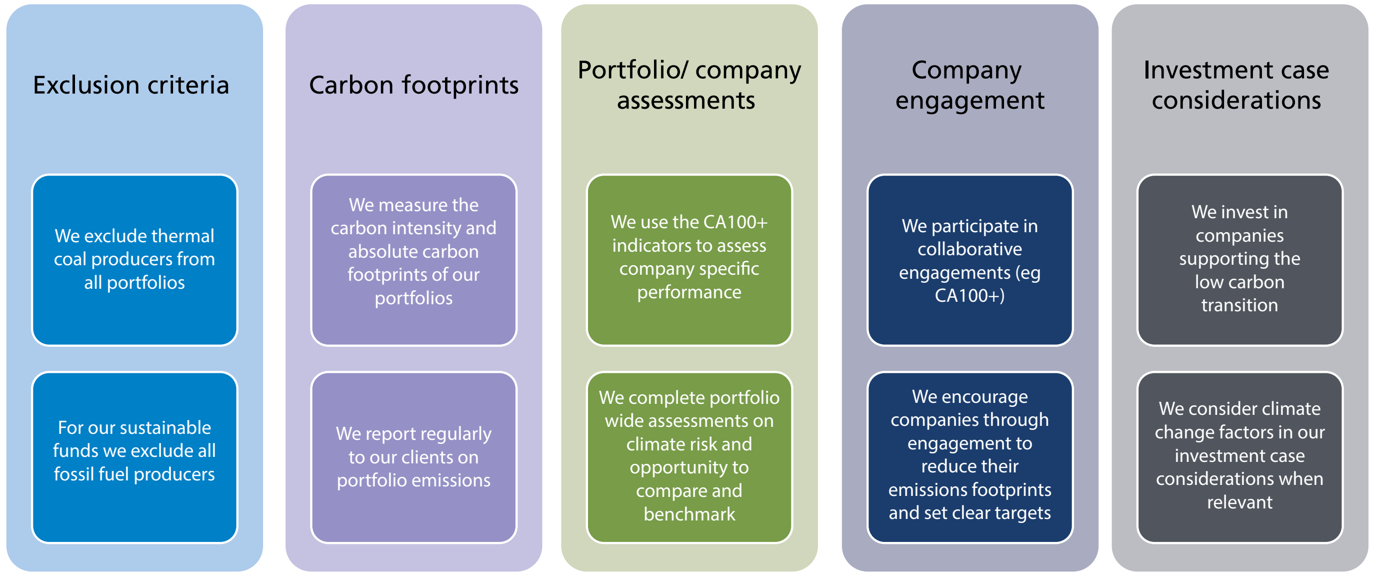
[6] Calculated using quarterly office energy usage data and the Clean Energy Regulator's scope 2 electricity emission factor (kg CO2e/kWh) of 0.81 for 2020-2021 and 0.79 for 2021-2022

[7] Carbon dioxide equivalents

Managing climate change in our investments

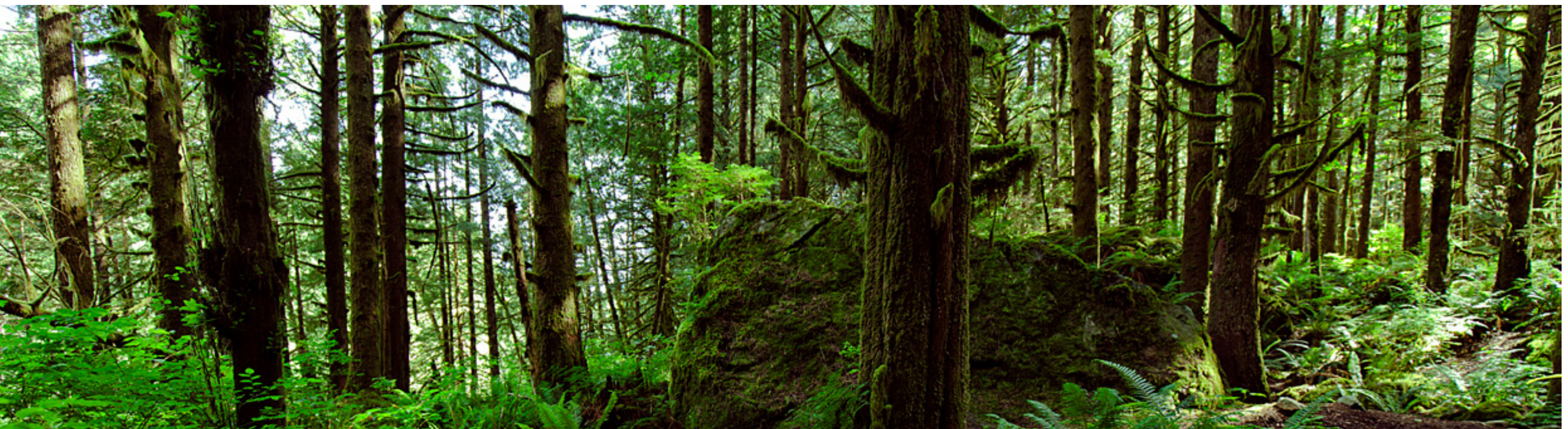
Across our portfolios we manage a number of specific climate-related threats and opportunities through investment decision making, valuation and modelling, and company engagement. These risks vary by sector and depend on each company's operating model, asset type and the expected transition pathway of the business and sector. The journey to net zero is specific to each company and striking the balance between shareholder value and an orderly transition is important for us as stewards of capital. **Figure 10** outlines the pillars that guides our evaluation of such risks.

Figure 10. Managing climate-related threats and opportunities across our portfolios



Further information on our approach to managing climate change risks and underlying assumptions of the net zero transition can be found in our Climate Change Statement. This document includes our:

- **Climate governance**
- **Approach to climate change risk management**
- **Key assumptions that underpin our assessment of investment risks related to climate change**
- **Risk identification approach and the metrics we utilise to assess company carbon exposures and sector risks**
- **Climate stewardship activities**



Managing climate risks

Climate change risks are generally longer term and exhibit a lower degree of certainty in terms of impact and timing. As such, we undertake research and engagement to better understand the possible impact from climate risks and encourage company action which mitigates this.

Where climate impacts are more immediate, such as home insurers, the risk is managed through investment decisions consistent with our approach to ESG integration outlined earlier in this report.

Generally, the transition towards net zero will be nonlinear. We therefore expect that each company's transition to low emissions operations, supply chains, and products will be individual and staggered. In such a complex area, engagement is an important tool for us to understand each company's strategy, targets, and pathways, and determine if they are progressive, achievable and transparent.

The main objectives of our climate-related engagements, especially for large emitters, are to:

- Set climate goals that are realistic, achievable and based on possible scenarios
- Improve disclosure on emissions profiles and carbon reduction targets
- Ensure remuneration incentives (short-term and long-term) are meaningfully aligned to targets
- Monitor annual decarbonisation path versus targets, and avoid divesting as a solution to address their carbon footprint
- Leverage opportunity by clearly communicating the benefits of their products and services to a net zero world
- Build resilient business models by investing and innovating in low carbon solutions
- Remain cognisant of carbon trading schemes

Table 3 includes some engagement examples related to climate change. We recognise that our engagement with these companies may not necessarily have driven the positive outcomes listed below. Regardless, we believe that we have an influential role to encouraging changes in all the companies we engage with, to better manage ESG risks but also realise potential opportunities.

Table 3. FY22 climate engagement outcomes

Company	Engagement
BlueScope Steel	Ongoing engagement to encourage commitments on emissions intensity reduction for steel production. **Outcome:** Steady improvement in climate approach by appointing a Chief Executive Climate Change & Sustainability, publishing its first Climate Change Plan and setting CAPEX commitments for hydrogen trials.
Santos	Ongoing engagement to encourage stronger disclosures and commitments on low carbon energy solutions. **Outcome:** We issued a letter to the board with clear requests to improve its carbon commitment, for example, setting a target for clean fuel in its business mix by 2030.
Qantas Airways	Ongoing engagement to encourage better disclosures and a clear strategy on sustainable aviation fuel (SAF). **Outcome:** Published its first Climate Change Plan and firmed efforts in SAF partnerships and 10% mix by 2030. Qantas have a renewed focus on climate action and have developed a fulsome strategy to addressing climate risks.
Commonwealth Bank of Australia	Ongoing engagement with Directors and management to encourage disclosure of financed emissions and reduce the risk of greenwashing. **Outcome:** Published commitment to reduce exposure to fossil fuels, and improved disclosures in line with peers. We issued a letter to the board with requests for additional disclosure.

Company	Engagement
Nextera Energy	Engagement seeking clarity on climate strategy and shift away from fossil fuel energy generation, with ongoing discussion on the transition of gas energy generation assets. **Outcome:** Committed to real zero by 2045 in June 2022 and set a clear strategy to increase renewable energy in its mix.
First Republic Bank	Engagement requesting further transparency on fossil fuel lending position. **Outcome:** Company formalised and published a 'Do Not Lend' policy that excludes lending to fossil fuels.
John Deere	Lack of fleet electrification identified as a key gap in climate strategy and raised in engagement. **Outcome:** Company has now put in place a clear strategy around electric models, hybrid-electric models and low/no carbon alternative power solutions by 2026 across its product mix.

FY22 emissions metrics and performance

Alphinity carbon exposure metrics

We support the reduction in carbon emissions in the companies in which we invest but recognise that the transition will not be linear. Therefore, the fund's overall carbon metrics will vary year to year based on company emissions, portfolio constituents and weights, as can be observed in **Figure 12**. Our FY21 carbon exposure metrics (30 June 2021) are presented in Appendix 5.

It is important to note that equity portfolios themselves do not emit carbon. The carbon is being emitted by the companies irrespective of who owns their shares. In the same way that we measure the alignment of our holdings' SDG costs and benefits and attribute them to our portfolio holdings, we also attribute companies' emissions to our ownership.

To calculate the results presented in **Table 4** we have followed the TCFD recommendations.[8] 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) (this is the globally recognised metric for investment portfolios)
- **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 normalized by portfolio market value, expressed in tonnes of CO2e per $AUD million invested (CO2e/$AUDm).

Table 4. Alphinity's total carbon exposure across all funds

Scope 1 & 2	Alphinity
Weighted average carbon intensity	222 tonnes CO2e/$USm revenue
Total carbon emissions	787 896 tonnes CO2e
Carbon footprint	69.9 tonnes CO2e/$AUDm invested

Source: Alphinity, MSCI as at 30 June 2022 respectively.

[8] 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 regarding the carbon footprinting and exposure metric formula can be found in the TCFD's Supplemental Guidance for the Financial Sector.

Carbon commitments

Across our FY22 holdings we observed a variety 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. The metrics below **(Figure 11)** are useful indicators of a portfolio's potential exposure to transition risks such as policy intervention or changing consumer behaviour.

Across all FY22 holdings[9]:

- 59% of companies have a net zero commitment[10] in place for 2050, in addition to 10% of companies having disclosed a carbon pledge[11]
- 59% of companies have interim carbon or energy reduction targets in place
- 75% have TCFD disclosures

We recognise the value in understanding the scope and quality of carbon commitments, especially considering regulatory costs are likely to increase with more ambitious national commitments, as we have seen in Australia. Although analysing the carbon footprint of our portfolio itself does not equate to climate risk management, it highlights the largest carbon contributors and areas which we should focus our research and engagement. In FY21 we adopted the Climate Action 100+ benchmark indicators to consistently assess the progress of individual companies towards net zero.

Figure 11. Carbon-related metrics for domestic and global portfolios (as at 30 June 2022)

	Climate metrics *All FY22 holdings*	**Carbon exposure metrics** *Portfolio as at 30 June 2022*		
DOMESTIC	**Of 71 companies:**		Weighted average carbon intensity*	Carbon footprint**
	58% net zero and	Australian Share Fund (ASF)	274.6	106.2
	10% carbon pledge	Concentrated Australian Share Fund (CASF)	268.4	103.8
	54% interim targets	Sustainable Share Fund (SSF)	99.2	51.4
	70% TCFD	Combined	243.7	96.3
GLOBAL	**Of 72 companies:**		Weighted average carbon intensity*	Carbon footprint**
	60% net zero and	Global Equity Share Fund (GEF)	186.2	28.1
	11% carbon pledge	Global Sustainable Equity Share Fund (GSEF)	62.1	14
	64% interim targets			
	79% TCFD	Combined	186.3	26.8

Note: The climate metric assessment was completed in October 2022, so may include company reporting beyond the FY22 reporting period (1 July 2021 to 30 June 2022). *Weighted average carbon intensity: tonnes CO2e/$USm revenue. ** Carbon footprint: tonnes CO2e/$AUDm invested.

Source: Alphinity, MSCI carbon data and portfolio weights as at 30 June 2022

[9] Emissions management metrics have been calculated based on FY21/22 company disclosures (available prior to October 2022), and analysis from the Science Based Targets initiative.

[10] 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.

[11] A carbon pledge constitutes commitments that do not explicitly include the term net zero such as carbon neutral, carbon positive and carbon negative targets.

Carbon footprint of our funds

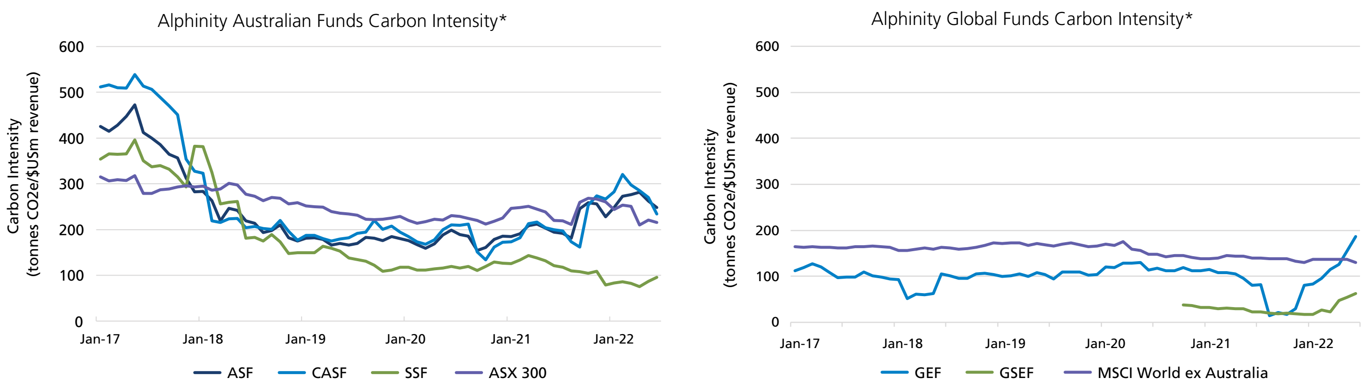
The exclusion of all fossil fuel producers (including energy companies that generate electricity from fossil fuels) from the sustainable funds[12] contributes to their emissions intensity being well below that of the other funds. The large weighting to the energy, metals and mining sectors in the Australian market contribute to the domestic portfolios and benchmark having a much higher carbon intensity **(Figure 12)** than the global portfolios and the MSCI World Index.

In FY22 we observed the emissions intensity of all portfolios except the Sustainable Share Fund increase. This was largely driven by the addition of several companies to our portfolios:

- **Australian Core and Concentrated Funds:** South32 produces important transition metals such as nickel and aluminium, but relies on the carbon intensive energy grid in South Africa for its smelting operations. It has set a net zero 2060 target for its scope three emissions.
- **Global Equity Fund:** Nextera Energy is the largest renewable energy provider in the US and although it has moved away from most of its coal generation assets, it does still produce energy from gas generation. It has committed to zero emissions by 2045.
- **Global Sustainable Equity Fund:** Waste Connections emits carbon through its waste collection fleet and landfill gas. It is currently developing a carbon target and is expanding its methane gas capture at its sites. On Semiconductor utilises energy in its semiconductor production, and has committed to net zero by 2040.

We have engaged with all top five carbon contributors in each fund. Additional information for their climate progress and our engagement activities is presented in Appendix 5. Revenue derived from fossil fuels for our FY22 holdings are also included in Appendix 3.

Figure 12. Weighted average carbon intensity compared to respective benchmarks



*Weighted average carbon intensity: tonnes CO2e/$USm

[12] Our sustainable fund charters (Domestic Sustainable Share Fund, Global Sustainable Fund) define the scope of our fossil fuel exclusions.

Comparative analysis of carbon metrics for chemical companies

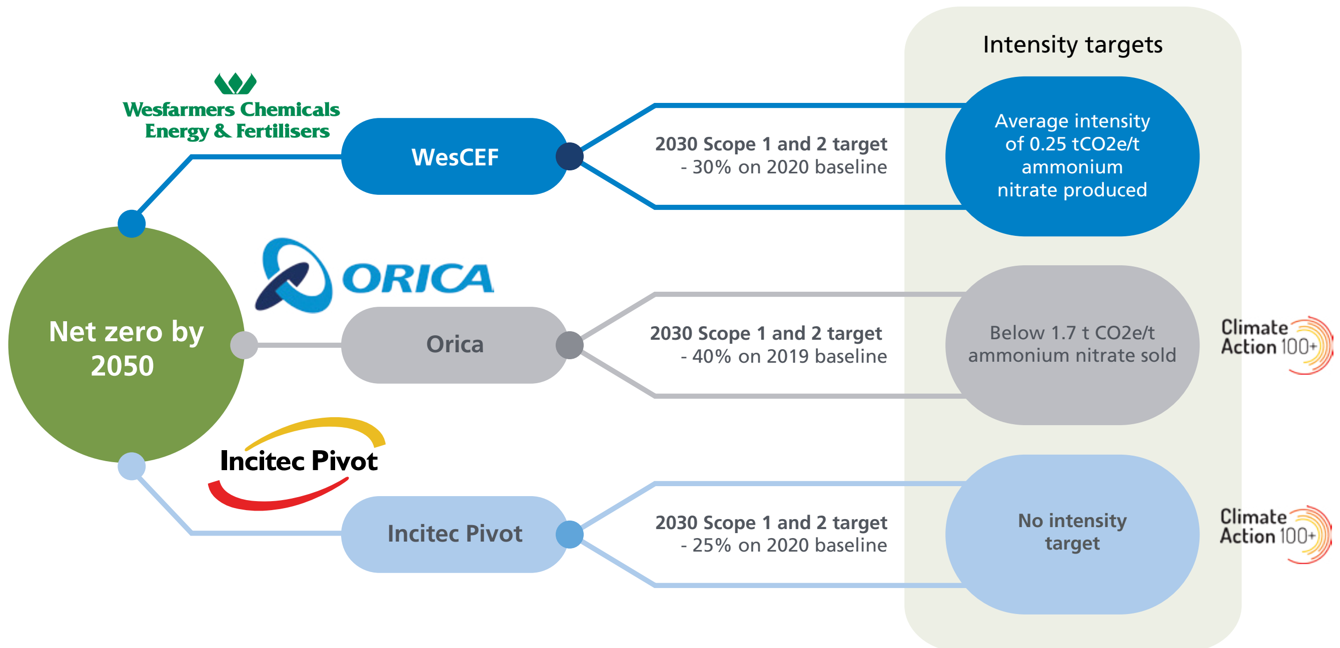
As support investors for the Incitec Pivot and Orica Climate Action 100+ working group, and shareholders of Wesfarmers, we completed analysis to compare each company's climate disclosures and targets. We found that, although all three produce ammonia, nitric acid and ammonium nitrate, they disclose and target a range of different emissions metrics **(Figure 13)**.

WesCEF is the chemical, energy and fertilizer division of Wesfarmers and by far the most emissions intensive segment of the business. Our analysis identified gaps in the WesCEF climate strategy, such as the absence of carbon reduction targets and clear disclosures of its value chain emissions. We subsequently engaged with management and WesCEF has since set a 2030 emissions reduction target and has outlined an intent to improve its scope three emissions disclosures, in line with our requests.

Throughout the year we were also pleased to see Incitec Pivot and Orica strengthen their climate strategies by setting net zero commitments, clear 2030 targets and improving disclosures around the short-term reduction pathway. Nonetheless, engagement with these companies will continue to hold these companies account.

Validating a climate strategy can be difficult in hard-to-abate sectors where technical knowledge is often needed to evaluate the feasibility of a carbon commitment. We believe that investor collaboration addresses this challenge, so that informed individuals can collectively advocate for stronger climate outcomes. In this case, the progress we have seen in all three companies' climate strategies has demonstrated the value of initiatives such as the Climate Action 100+.

Figure 13. Three Australian chemical companies have all committed to net zero, but target and report different metrics



Workforce

We believe that a company's workforce is one of its most valuable assets. A good employee value proposition should include the promise of a safe and inclusive work environment, flexibility, fair and equitable pay and leave arrangements, and sufficient benefits that reduce turnover.

Since the onset of COVID-19, we have seen a number of companies struggle with labour shortages, higher turnover rates, diminished safety metrics, increased labour costs, and significantly more industrial action for employee groups covered under collective bargaining agreements. We believe this further emphasises the need for businesses to have a strong employee value proposition, stable culture, and well recognised social licence to operate.

This is a material issue for the vast majority of companies within our portfolios. Depending on the company, the specific risks and opportunities within workforces varies. We assess the most relevant issues consistent with our ESG materiality process outlined earlier in this report.

This year, we identified a number of companies within our funds had diminishing health and safety metrics. Through engagement we discovered that this has largely been due to labour shortages and increased turnover rates. This has meant that many companies have fewer experienced people working in their business.

Following Rio Tinto's report into workplace culture, we initiated a research and engagement project to explore related risks across the industry and deepen our understanding of factors that can drive, or mitigate, harmful behaviour within a company. A case study is provided below.

Number of ESG engagements

Domestic:

- Culture: 22 (28% of meetings)
- Health and safety: 15 (19% of meetings)

Global:

- Culture: 9 (10% of meetings)
- Health and safety: 25 (28% of meetings)

Health and safety risk and management

As a material risk across a number of portfolio holdings we closely track the number and extent of health and safety incidents, any fatalities, and year on year changes in performance. As with other material issues, we aim to use data as an input to our process but assess each risk on a stock-by-stock basis.

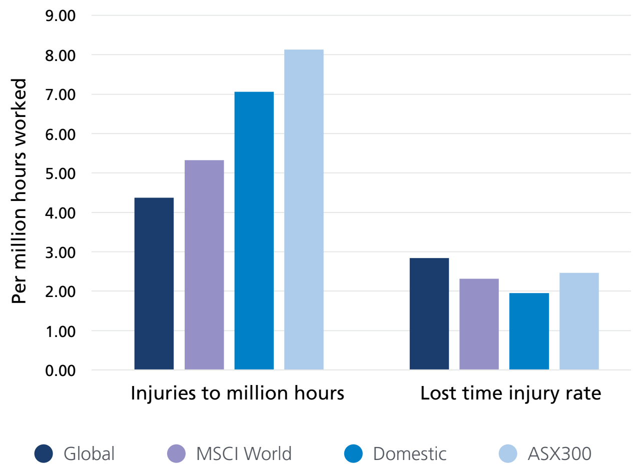
Health and safety metrics

This year, we've heard anecdotally from a number of company managers, that health and safety performance has been a key challenge since the start of the pandemic. Initially this was because of an increase in the number of people taking leave due to lockdowns or illness. Now, this is mainly because of the 'great resignation' and higher turnover rates. We have heard that management are focussed reducing turnover rates through greater flexibility and workplace culture, increasing training requirements for new employees and embedding contractors into the company safety culture.

In analysing health and safety metrics of our FY22 holdings compared to the benchmark, we found that (on average):

- Injury rates for FY22 was lower than the benchmark for both global and domestic **(Figure 14)**
- The rate of disclosure on health and safety metrics generally less than 50% of companies in the benchmark
- Consumer discretionary and consumer staples had the overall highest rates of lost time and injuries
- 80% of global companies and 45% of domestic had an injury rate of less than 5
- 12% of global companies and 26% of domestic companies had an injury rate of more than 10

Figure 14. Health and safety metrics of FY22 holdings



Health and safety engagement

This year, 24% of our company engagement on ESG included a discussion related to health and safety. By rank, this topic was the fifth most common engagement topic. Some examples of these engagements are:

Domestic

- **Cleanaway:** Meeting with newly appointed CEO to discuss priority areas within the business including environmental management, culture, and health and safety.
- **Qube:** Pre-investment meeting to review high risk areas such as health and safety, emissions intensity, and ethics and corruption.
- **South32:** Meeting with management to discuss workplace culture and safety, with specific discussion on fatalities at the South African site.
- **Woolworths:** End of year ESG update with General Manager for Sustainability that confirmed Woolworths' health and safety reporting will be enhanced from FY23 to include severity rates with other health and safety metrics.

Global

- **Keysight:** Small group meeting with CFO discussing the management of COVID-19 risks and how the business was supporting employee and community vaccinations. For example, Keysight set up a vaccination clinic for non-Keysight workers in Malaysia.
- **Darling Ingredients:** Pre-investment meeting with management to discuss material ESG risks and opportunities such as worker health and safety, management of pollution and discharges and animal welfare.
- **Otis:** Follow up meeting with Otis investor relations to discuss health and safety record and management of contractors in South East Asia specifically.

CASE STUDY I WORKFORCE I DOMESTIC

Workplace culture, sexual harassment and bullying in the mining industry

Introduction

Following the extent of sexual harassment, bullying and racism highlighted in Rio Tinto's recent workplace culture report in January 2022, we initiated a research and engagement project to explore the related risks across the industry and deepen our understanding of the factors that can drive, or mitigate, harmful behaviour within a company. Industry reports and one-on-one interviews with ten ASX200 companies in the mining and industrial sectors formed the basis of the investigation.

Despite its multifaceted and obscure nature, we believe a perspective on company culture can be obtained from outside an organisation. We have subsequently developed a framework for investors to assess workplace culture that is characterised by three overarching pillars.

Our framework

From the outside in: A framework to assess workplace culturein mining and industrial companies

Pillars	**Strong governance** Holistic safety culture driven from the top down		**Safe and inclusive operating environment** Safe facilities, effective reporting channels, active by-standers, staff capability, alcohol restrictions, diverse representation and a victim-centric approach				**Strong governance** Holistic safety culture driven from the top down	
Assessment criteria	Board oversight and policies	Incentive structure	Safe operating environment	Speak up culture	Diversity, equity and inclusion	Training and awareness	Diversity, equity and inclusion	Training and awareness
Metrics	N/A	Remuneration* linked to culture (%)	Safety metrics (physical and mental health)	Number/types of complaints and disciplinary action	Diversity metrics	Staff trained (%) and frequency of training	Engagement survey score and participation rates (%)	Turnover metrics and absentee rates (%)

This framework, along with insights from background research and company interviews has been published on the Alphinity website here.

Project outcomes

- **Workplace culture assessment framework:** Eight criteria and specific underlying metrics form a unique assessment framework that can be used to evaluate a company's workplace culture.
- **Workplace culture evaluation:** A preliminary assessment against the framework has been completed for a suite of mining and industrial companies. The analysis has been shown in an anonymised format in this report, alongside good practice examples, the key metrics that we ask companies to disclose and suggested questions for other stakeholders to complete similar assessments.
- **Disclosure requirements:** We encourage companies to engage with investors on this important issue and improve transparency on the metrics identified in this report.
- **ESG integration:** The outcomes of the workplace culture analysis will be embedded within our ESG assessment processes and used to inform future engagements and track progress, especially for identified higher risk companies.
- **Offering company feedback:** We have provided detailed feedback to the companies we engaged with, particularly where gaps in disclosure against the framework criteria have been identified, and will follow up action points in FY23.

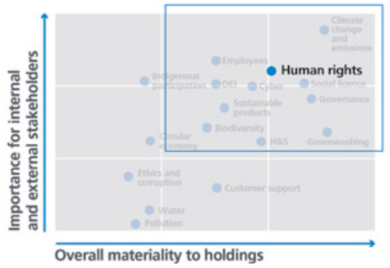
Modern slavery and human rights

Number of ESG engagements

Domestic: 11
(14% of meetings)

Global: 42
(47% of meetings)

Related policy:
Modern Slavery Fact Sheet



We strongly support the United Nation's 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 economy to eradicate. While implications of the Australian Government's Modern Slavery Act have been significant in improving company disclosures in the domestic market, there is increased attention on modern slavery globally. For example, last year we saw the US blocking goods from entering the US under the suspicion they were made with forced labour.

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

Our Modern Slavery Fact Sheet includes detail on our overall approach modern slavery management including how we manage risks in our own operations.

Managing modern slavery risk 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. Reviewing a company's modern slavery disclosures, including relevant policies, sustainability reports, and specific modern slavery statements is a standard component of our ESG review process. This is an important ESG topic and is discussed in many company engagements. We generally seek information on any high-risk areas and commodities to which the company might be exposed.

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 in our funds. We actively encourage our investee companies to disclose their risks related to modern slavery, include case studies, outline their governance practices and to improve disclosure around any breaches and associated remediation.

In FY21, we introduced an in-house risk assessment framework to assess supply chain, operational, and value chain risks in our investments. This year, we have enhanced this framework by also integrating management indicators for supply chain risks into the assessment. We have also engaged with companies using insights gained from this assessment.

Out of the three risk areas, supply chain is generally well addressed in company modern slavery statements or reports. As it is also the most material risk area for our holdings, we decided to focus on the management for this area first. We will add further management indicators for the other two risk areas by FY24.

FY21
Introduced risk assessment framework

In FY21, we introduced a modern slavery risk assessment process to identify potential human rights risks across three categories:

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

The purpose of this assessment is to identify companies and sectors which present the highest overall concern related to human rights.

FY22
Enhanced framework with management indicators for supply chain

In FY22, we enhanced our modern slavery assessment framework by including management indicators that aim to measure a company's response to modern slavery risk in their supply chain. This allows us to form a view on the residual risk for each company and inform future engagement with the company. These include:

- Specific human rights policies and modern slavery statements
- Modern slavery disclosure quality
- Supply chain audits and reporting incidents and remediation
- United Nation's Global Compact commitments
- Explicit consideration of human rights in the Supplier Code of Conduct

FY22 modern slavery assessment metrics and insights

FY22 metrics	Number of companies analysed:	Companies with a high risk in at least on area:	Companies with a modern slavery statement:	Companies disclosing information on breaches:
	143	31%	87%	57%

FY22 insights

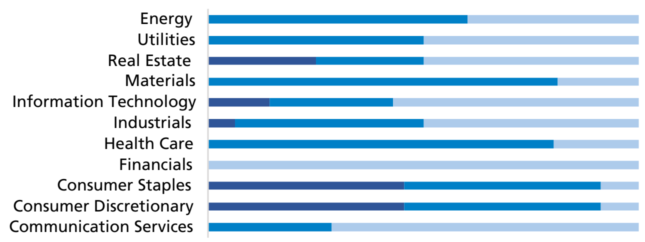
Risk assessment

Supply chain

The supply chain category has the highest potential exposure to modern slavery. This has been consistent across the FY21 and FY22 assessments.

Consumer discretionary, information technology, consumer staples and industrials are the sectors most exposed to human rights risks in the supply chain.

Supply chain modern slavery risk

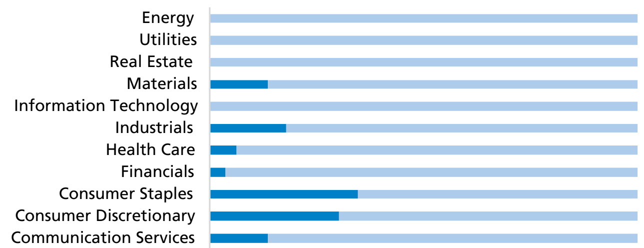


Operational

Data on operational risk measures like factory locations, size of contract workforce and use of internal ethics hotline is not consistently disclosed. We aim to identify this information through engagement where possible.

Consumer discretionary, consumer staples and materials are the sectors most exposed to operational modern slavery risks as they can exhibit lower skilled workforce, high-risk locations and use contract workforces (including labour hire).

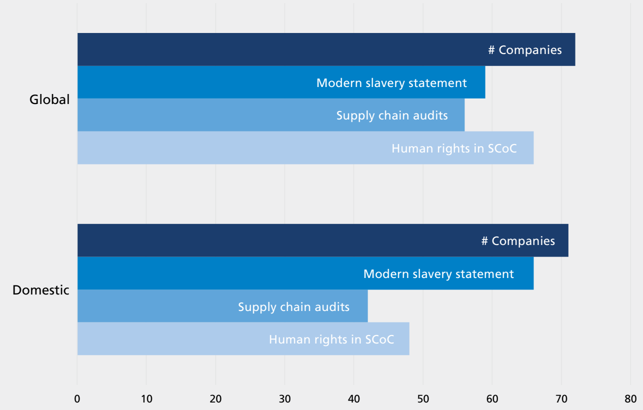
Operational modern slavery risk



Management assessment for supply chain risk

This year we have integrated management indicators into our framework to assess residual risks for supply chain. These indicators are mostly related to disclosure and guide engagement action or further research.

Modern slavery portfolio overview



Key findings

Improving disclosure level compared to FY21

- 100% of high-risk domestic companies have a modern slavery statement in place. Globally, it is slightly lower at 80%.
- 91% of the companies that have been assigned a medium and high level of overall exposure have a modern slavery statement in place.
- Of the ~70% of companies with high-risk commodities in their supply chain, more than 80% have a modern slavery policy, conduct supply chain audits and include human rights in their Supplier Code of Conduct.
- We found global companies conduct more supply chain audits than domestic companies, likely due to increased exposure across all risk areas.

FY22 insights

Value chain

Financials and information technology (including communications) sectors are at risk to downstream modern slavery risks through their lending practices and the application of surveillance technology.

Value chain modern slavery risk

More transparency around critical breaches and remediation actions in the Australian market

We encourage companies to improve disclosures around audits, critical breaches and remediation. Transparency does not necessarily translate to progress. However, it does lift the veil when it comes to managing human rights risks and demonstrates accountability from management in addressing this risk.

- Of the ~60% of companies disclosing the number of human rights breaches that required corrective actions, most claim that these are critical or serious incidents. 13% found more than 50 breaches.
- The number of Australian modern slavery statements that disclosed critical breaches far outweighed that of global companies. We suspect that legislation has driven the remediation of modern slavery issues. We continue to advocate for similar metrics from global companies.

Modern slavery engagements

High level engagement objectives:

- Encourage enhanced disclosure on modern slavery risks consistent with the Australian Modern Slavery Act. This should include disclosure of incidents and remediation actions.
- Encourage management of all three risk categories (supply chain, operational, and value chain).
- Provide feedback to companies where we believe the approach to managing modern slavery risks is lacking, building from the high disclosures we are seeing in Australia.

CASE STUDY I MODERN SLAVERY I GLOBAL

Wesfarmers: Good practice example of audits and disclosure

The well-known Wesfarmers brands include Kmart, Target, Officeworks, and Bunnings that procure high-risk global supplies such as low-cost goods, cotton and construction materials.

Through the year we have continued to engage with Wesfarmers on its human rights approach. It has progressively improved on-the-ground audits, disclosures around breaches and remediation. A key FY22 improvement was more information on audit bribery taking place. Wesfarmers exited two suppliers in China due to attempted bribery.

We have observed Wesfarmer's focus on modern slavery increase year on year so our engagement does not have a specific objective. Nonetheless we believe it is important to monitor and engage with the company to support improvements over time.

Additionally, Wesfarmers is a good practice example that we use to benchmark the quality of other modern slavery statements. Correctly validating human rights audits and maintaining awareness of bribery is a learning that we will be integrating into our risk assessments going forward.

CASE STUDY I MODERN SLAVERY I GLOBAL

Nestle: Managing complex supply chains

Modern slavery and child labour are deeply prevalent in the cocoa supply chain in West Africa, which represents ~60% of global supply. This is because most cocoa in Africa is grown by family smallholders, making child labour and supply chain traceability an industry-wide challenge.

Nestle is addressing this through its' 'Cocoa Plan' which targets 100% traceability by 2025. One of the main levers in Nestle's Cocoa Plan is to cultivate long-term relationships and gain visibility by working with farmers, communities and NGOs to map out the main plantations.

Nestle has made progress already, with 51% of the cocoa used in 2021 directly sourced and traceable (vs 46% in 2020). In January 2022, Nestle also announced an innovative $1.4bn plan involving direct payments to African cocoa farmers to tackle the poverty which is the root cause of child labour.

We have engaged with Nestle on this matter and generally support its efforts in supply chain traceability and tackling farmer poverty in West Africa. We recognise that this is a complex and difficult challenge, which will likely take multiple years to address. We also welcome the positive contribution that Nestle is making to other companies in the industry facing the same issues. For example, Nestle implemented a child labour monitoring and remediation system which other companies have now adopted as a leading tool for tackling child labour risks.

Expanding ESG perspectives: EU research trip

To expand our knowledge on emerging areas of ESG, a member of the ESG team undertook a month-long research trip to gain insights from those leading the sustainable finance drive in Europe. The objectives of the trip were to:

- Gain on-the-ground knowledge of emerging ESG topics and regulation from leading ESG markets (Europe)
- Attend ESG conferences to explore emerging topics, including the well-regarded Responsible Investor conference
- Meet with ESG specialists and organisations to research and document views on four research areas

EU regulation and reporting frameworks

What are key regulatory developments and how might these impact Alphinity?

Energy transition: The role of gas and nuclear

How is sentiment around gas and nuclear changing?

What are the main demand assumptions and new technologies needed for an orderly transition?

Delivering a net zero target as an asset manager

How are leading asset managers and owners setting net zero commitments?

How is this practically achieved within a fund?

Biodiversity

How is biodiversity being integrated into ESG assessments, engagement and reporting?

How are investors measuring biodiversity risk and does the TNFD help?

The EU regulation research is a space that the ESG and investment teams are monitoring.

There are three intersecting pieces of legislation that will be important for disclosure and ESG investing looking forward: the EU Taxonomy, the Corporate Sustainability Reporting Directive (CSRD) and the Sustainable Finance Disclosure Regulation (SFDR).

Our initial thoughts as this regulation matures

Up until now, ESG investors have taken different and sometimes inconsistent approaches to labelling their products. Consequently, we are encouraged to see this world-first effort to introduce standards and believe it will ultimately significantly improve product transparency and integrity. Nonetheless, several key aspects of the legislation, and how it will be applied in practice, remain unclear. We anticipate more clarity once the legislation comes into full effect from January 1st 2023.

- **Enhanced disclosure:** Companies listed, or with significant operations in the EU, will report taxonomy alignment in 2023 and 2024.
- **Rising standards of ESG reporting:** Companies that are not under the scope of CSRD may be pressured to report to the taxonomy standard.
- **Defining sustainable:** Consolidating views on activities considered 'sustainable', and which are not.
- **Rising regulatory focus in other markets:** Other taxonomies around the world are working to channel capital flows into sustainable economic activities, with momentum to mandate climate disclosures in particular.
- **Fund classification:** EU funds will be required to disclose whether they are Article 6 (without a sustainability scope), Article 8 (promoting environmental or social characteristics), or Article 9 that have sustainable investments as their objective.

Alphinity does not currently fall within the scope of these regulations. However, we are mindful that this may change in the future, and also that this regulatory framework may become influential in other countries such as Australia. Consequently, we are closely monitoring developments and industry adoption, including associated Article 8 and 9 guidance and disclosures, to consider how our funds might potentially fit within such a framework.

Biodiversity

The focus on biodiversity as a key ESG thematic increased significantly in FY22, largely driven by interest from European asset owners and asset managers. We have also seen a number of large globally listed organisations increasing disclosure and commitments related to biodiversity.

During FY22, the Task Force on Nature-related Financial Disclosures (TNFD) released the first beta version of the framework for market consultation. The finalised framework is due for release in September 2023. The TNFD aims to demonstrate the economic case for nature through this natural capital approach aiming for no net loss and net gain by 2050 globally. Once this is released, we expect that action and disclosure around biodiversity will significantly increase.

Number of ESG engagements

Domestic: 7
(9% of meetings)

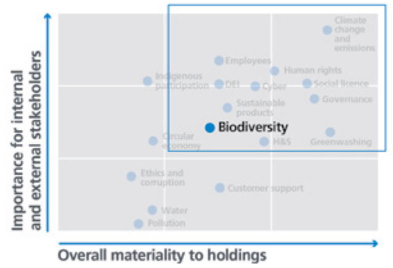
Global: 5
(6% of meetings)

Our view on biodiversity as a threat and opportunity

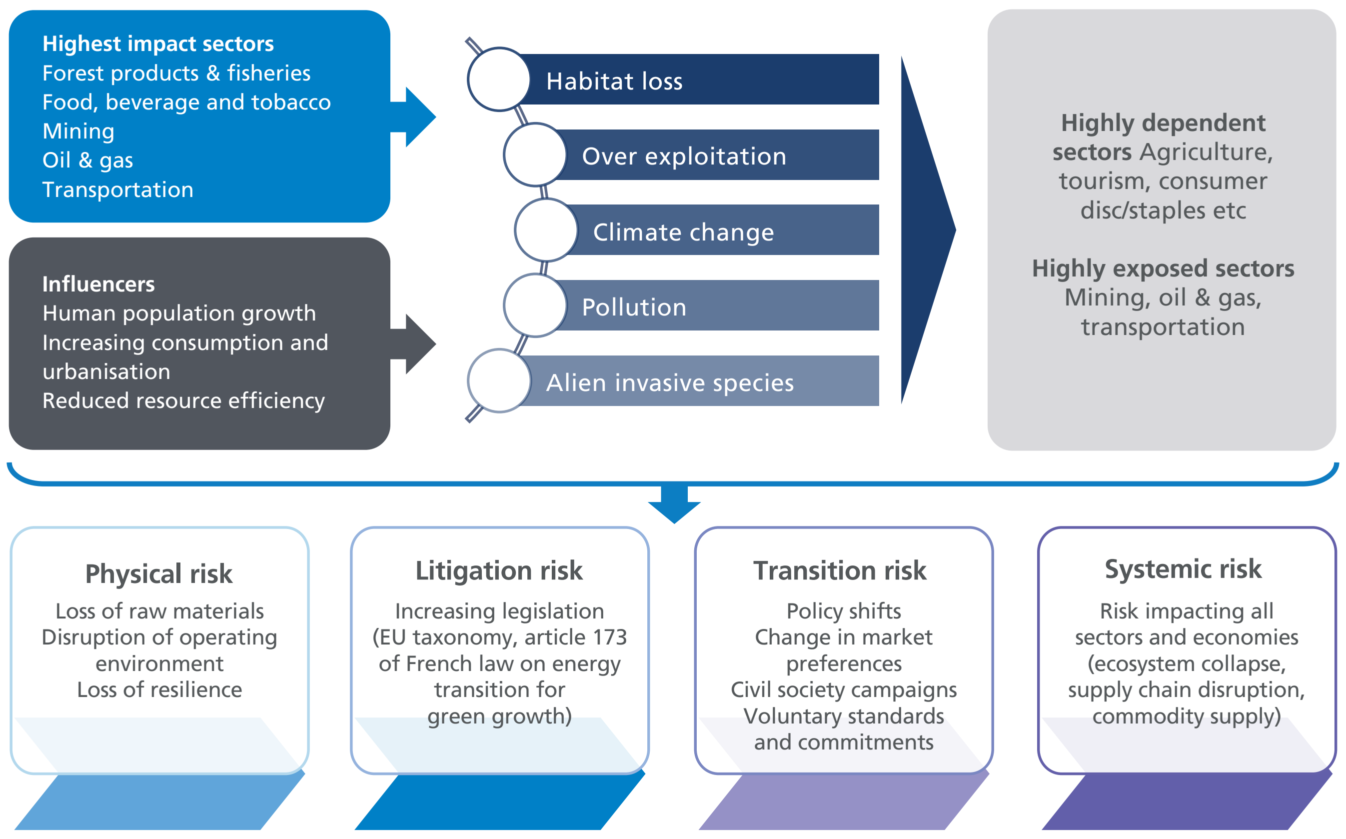
Biodiversity loss is a threat to the ecosystem, driven by land use/sea use change, direct exploitation, climate change, pollution and alien invasive species: all factors that can disrupt company operations and their products and services. The main risks that companies face related to biodiversity include physical risk, litigation risk, transition risk and systemic risk. These are highlighted in the schematic below from the PRI in their 2020 Discussion Paper on Investor Action on Biodiversity.

We assess biodiversity risk alongside all other ESG risks using our internal ESG assessment approach. We consider issues such as pollution and other downstream impacts on biodiversity, supply chain impacts on biodiversity through clearing, farming and industrial activities, and the impacts of greenfield developments. We also consider the opportunities to enhance biodiversity through business operations and community initiatives, alongside commitments to be 'nature positive' and promote genetic diversity through products and supply chains.

Ultimately all businesses depend on assets or ecosystem services through their business and supply chains, so any loss of natural capital can present a significant risk to a company. At a policy level we are closely watching the global developments in this space and believe the TNFD recommendations will be influential in defining a more specific agenda for addressing biodiversity risks as an investor.



Direct drivers of biodiversity loss



Source: Principles for Responsible Investment, Investor Action on Biodiversity: Discussion Paper

Biodiversity-related engagement and research

At a company level, we have started engaging with companies more closely on biodiversity risk. This is partly to understand the risks and opportunities better and determine best practice in this critical space.

Common questions we ask management and sustainability specialists in relation to biodiversity are:

- What are the most material biodiversity related threats and opportunities for the business?
- How is the business preparing for the release of the TNFD framework?
- What work is already underway to assess and measure biodiversity impacts?

To date, this engagement has been mainly focused on the following sectors:

- Mining and energy companies where the impact to biodiversity can be significant
- Consumer discretionary and consumer staples companies where supply chains are exposed to biodiversity-related threats such as climate change impact on crops
- Companies which are involved in agriculture, either directly or indirectly through farming, lending, or provision of products or services that support farming

We have also undertaken two specific studies related to agriculture and biodiversity: thematic research into the sustainability of fertiliser, and the benefits and limitations of different farming techniques including regenerative farming and organic farming. As this thematic evolves, we plan to continue to explore various threats and opportunities and engage with businesses to better understand the landscape and benchmark best practice. Once the TNFD is finalised, we also intend to produce a TNFD disclosure.

CASE STUDY I BIODIVERSITY I GLOBAL

Thematic research: Sustainability of fertilisers

Modern industrial agriculture relies heavily on fertilisers to increase yields, reduce the cost of production, and in turn improve food affordability and availability. World Vision estimates that over 250 million people are facing acute food insecurity globally. As such, production and demand for nutrient fertiliser (nitrogen, phosphorus, potassium) continues to rise. However, the negative impacts of fertilisers is well known, and we have seen the growth of regenerative farming and precision agriculture as alternative strategies that reduce fertiliser use and runoff. The ESG issues are pertinent across the fertiliser value chain, from the mining process, carbon emissions in production and application, pollution of waterways and reduced overall soil health.

Earlier in the year, the investment team proposed three fertilizer companies for potential inclusion within the approved investable universe for the Global Sustainable Equity Fund. The ESG team undertook a thematic review, engaging with companies and an academic expert specialising in the use case and impact of phosphate fertiliser.

We summarised the key ESG and sustainability considerations for each nutrient fertiliser, taking into account:

Inputs and sourcing (supply chain) → **Operational processing** → **Environmental and social impacts (value chain)**

After completing this preliminary research, we assessed the SDG alignment for three fertiliser companies and discussed our findings with the Sustainable Compliance Committee. The following summarises the outcomes from the SDG analysis and committee discussion:

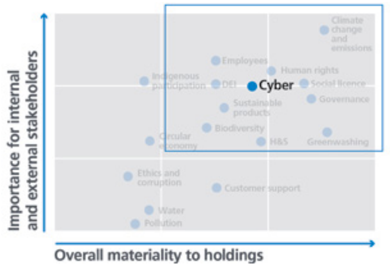
- **Fertiliser companies with net negative SDG scores:** A traditional fertiliser company that does not utilise technology or organic options is not likely to have a net positive SDG score given the negative alignment to SDG6 (impact on water) and SDG13 (embodied emissions) did outweigh the positive alignment of fertilisers to SDG2 (zero hunger and sustainable agricultural practices).
- **Fertiliser companies with net positive SDG scores:** A fertiliser company that contributes to sustainable agriculture, by focussing on innovation and R&D had potential additional SDG alignment to SDG12 (reduced pollution), SDG6 (reduced impact on water) and SDG9 (industry innovation). We especially found that companies that were using precision agriculture and technology to improve targeted application of fertiliser would reduce the negative impact of fertilisers and runoff over time. We also found that companies that were investing in lower emissions feedstocks to traditional ammonia (for example, green ammonia) would benefit SDG13 and reduce the negative impacts of upstream emissions.
- **Outcome:** Companies such as Yara that have a clean ammonia business, and Nutrien that provide financing to smallholders and improve access to farmers, had net positive SDG scores and were approved for the sustainable investment universe.

Cybersecurity, data privacy and data ethics

Number of ESG engagements

Domestic: 3
(4% of meetings)

Global: 11
(12% of meetings)



Cybersecurity, data privacy and data ethics is a growing area of ESG focus for FY22. With the roll-out of our ESG materiality process in 2021, cybersecurity and data privacy was identified as material issue for a number of companies across the funds. Data ethics and responsible use of data was also identified as a material issue, especially for technology and financial companies.

The exposure and risks for cybersecurity, data privacy and data ethics are all slightly different. However we generally assess these issues together since there is overlap in best practice management and the sectors that are most exposed.

We are in the early stages of understanding this risk fully. We have identified this as a material area of focus for FY23 and will provide a more fulsome update in our FY23 ESG and Sustainability Report.

We see Artificial Intelligence (AI) as another important and emerging risk area within the broader data thematic. This year we have developed a framework which aims to assess whether companies are designing and commercialising AI in a manner that is ethical and responsible.

CASE STUDY I CYBER AND DATA I GLOBAL

Responsible and sustainable artificial intelligence

Background

Artificial intelligence is shaping the future of our industries and drives emerging technologies such as big data, the internet of things and robotics. However, automation, the spread of fake news and tailored media, and potential AI-powered weaponry are some risks posed by AI. We hold a number of information technology and communication services companies in our global portfolios and have identified responsible AI as a nascent ESG and sustainability issue. Our intent is to explore this further and develop a framework to assess best practise for responsible and sustainable AI.

The framework

Our AI framework addresses the three stages of responsibility; design, application and governance. As an example, the below table outlines six features of a responsible AI design that can be used as a checklist for engaging with corporates. Companies in our portfolio or in our investment universe where responsible AI is relevant include Google, Microsoft, Apple, Amazon, Netflix, Meta and Nvidia. In addition, the framework can also be used to analyse the use of AI in non-technology sectors such as Financials, Consumer Discretionary and Staples, Industrials and Health Care.

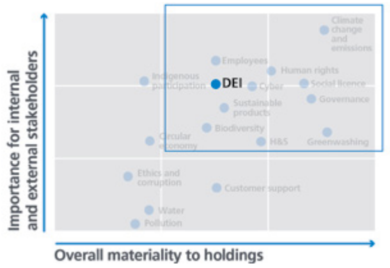
Feature	Comment
Human centric	Human centric AI works for people and protects fundamental human rights. It is continuously improving because of human input and is aware of the risks of singularity.
Transparent	Transparent AI allows humans to see whether the models have been thoroughly tested and make sense, and that they can understand why particular decisions are made by the AI system (for example, no 'black boxes').
Secure	Secure AI refers to the protection of AI systems, their data, and their communications, which is critical for data safety and privacy.
Contestable	Contestable AI enables humans to meaningfully contest individual automated decisions made by AI systems.
Accountable	Accountable AI means that every person involved in the creation of AI at any step is accountable for considering the system's impact.
Fair and unbiased	Fair and unbiased AI aims to identify, acknowledge and address bias in the underlying data.
Forward looking	Forward looking AI aims to address potential ethical issues in AI at the start of the design process rather than at the time of application.

Diversity, equity and inclusion

Number of ESG engagements

Domestic: 19
(24% of meetings)

Global: 15
(17% of meetings)



We believe that an inclusive workplace is an important factor in creating effective work environments, diversity of thought and strong decision making. From a risk management perspective, all types of diversity (gender, ethnicity, age, LGBTIQ+, and other) can mitigate harmful behaviours stemming from power imbalance and a fear of speaking out as a minority within a group context. Good diversity also supports a strong workplace culture and employee value proposition. As such, we include diversity, equity and inclusion (DEI) in our internal ESG materiality assessment tool.

When assessing DEI we consider a number of different factors including absolute diversity metrics, relative diversity metrics versus industry leaders, year on year changes, pay gap data and reporting, strategy on workplace culture and inclusion, early intervention and training, and the integration of diversity metrics in management remuneration.

Company examples

Virtus health supporting women's fertility

Virtus is an Australian company in which we were invested during FY22. It provides fertility treatments and services, of which nearly a quarter were conducted through the lower cost option in parts of Australia, which improved affordability and access to IVF. The company is positioned as a market leader, with increasing success rates.

BlueScope Steel improving female participation in the industrial sector

BlueScope Steel has been held over time and is a company that we have engaged with on gender diversity as part of the 40:40 collaborative engagement. Pleasingly, BlueScope Steel took part in our workplace culture project and scores well compared to peers, and is an example of a cultural shift attracting many more females to work in the company.

Recruit Holdings promoting female participation in the workforce

Recruit Holdings is a Japanese HR technology company which is striving to promote gender diversity through its platform. Leveraging the use of AI and online platforms is increasing efficiencies in the labour market and promoting full employment to increase women in the workforce. Recruit dedicates more than 50% of sourcing efforts, including online advertising campaigns, to focus on underrepresented groups.

Workplace culture project

We have invested in many mining and industrial companies that traditionally have had male-dominated workforces, and engage with these companies around their efforts to improve female participation and build an inclusive culture and safe working environment (refer to page 51 in this document).

FY22 insights:

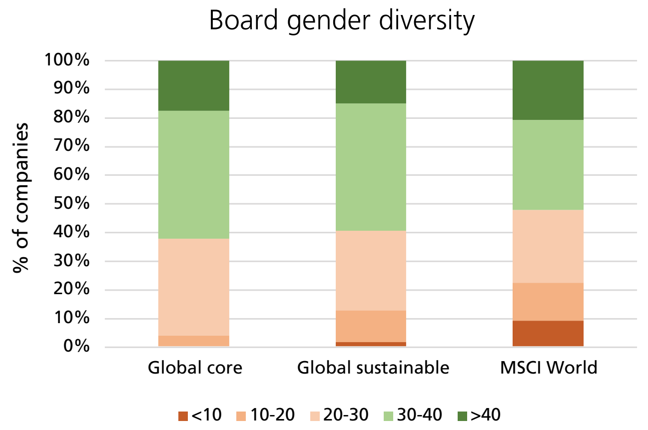
- Our funds have a higher proportion of companies with good gender diversity (>30% female representation) on their boards and executive teams than the benchmark (see adjacent graphs).
- An average of 20% of ESG-focused company engagements included discussions on DEI.
- Within our assessment of gender diversity, we seek data across different business levels (for example, board, executives, managers, workforce), equal pay metrics, targeted training and capability building and commitments to increase female representation, disabled employees and the ethnically diverse.
- We are strong supporters of investor-led collaborative engagements and, as part of the 40:40 Vision initiative, our allocated company BlueScope Steel has now committed for women to fill 40% executive roles by 2030.
- Our workplace culture framework (see earlier case study) incorporates specific metrics and indicators related to diversity and inclusion.

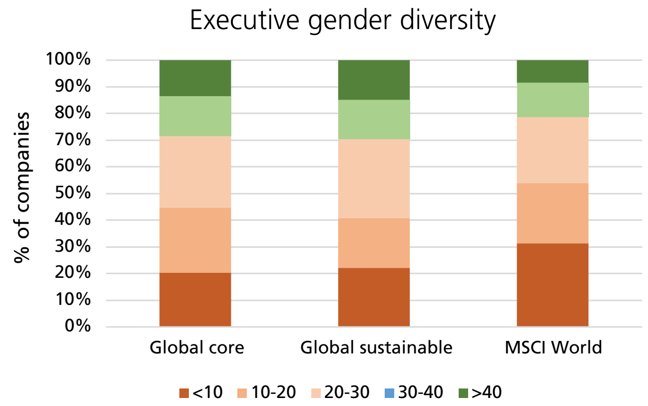
Gender diversity of our funds | Board and executive[18]

Executive gender diversity is generally lower than the board level, with the average of our funds higher than the benchmark.

GLOBAL FUNDS

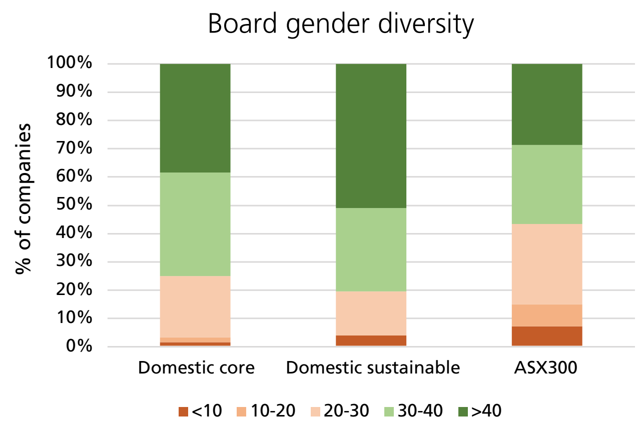
~60% of our holdings in our global core and global sustainable funds have more than 30% female representation on their boards.

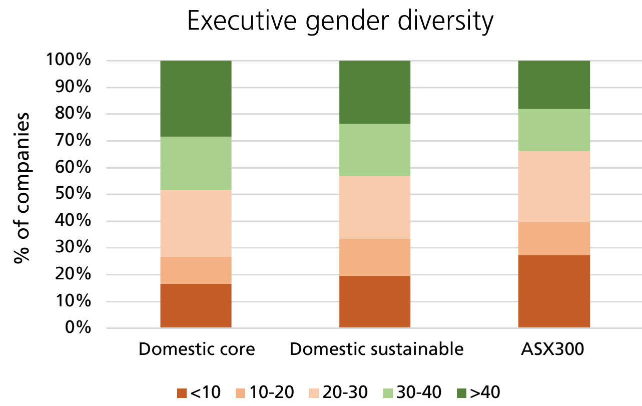




DOMESTIC FUNDS

Over 70% of our holdings in the domestic core and sustainable funds have more than 30% female representation on their boards.





Sustainable case studies

These case studies have been selected from our FY22 holdings across both funds. We do not hold all of these companies at the time this report was published.

Sustainable cities

GLOBAL EQUITIES

Sims Metal: Reducing waste with circular economy solutions

Positive alignment: 9, 11, 12
Negative alignment: N/A

Sims Metal is the leading collector, processor and supplier of recycled metal in Australia and the US. Sims points out that recycling aluminium saves 97% of greenhouse gas emissions produced in the primary production process. Its purpose is to "create a world without waste to preserve our planet" (SDG9, SDG11 and SDG12).

In FY21, Sims repurposed 2.1 million cloud storage units, recycled 8.6 million tonnes of secondary metals and became a member of the World Business Council for Sustainable Development. The company also announced its 2025 and Beyond Sustainability Goals, including targets such as becoming carbon neutral by 2042 and achieving net zero by 2050, building resource renewal capacity to transform 120k tonnes of ASR (non-recoverable materials) per year into new products and generating 10 percent of its EBIT from new business models and opportunities that enable the circular economy.

BHP: Materials for essential infrastructure

Positive alignment: 7, 9, 11, 13
Negative alignment: 6, 13, 15

BHP is a world-leading resources company, engaging in the exploration, development, production, and processing of iron ore, metallurgical coal, nickel, copper and potash. Many of BHP's products will help make the transition to cleaner energy possible, for example nickel which is a major component in the lithium-ion batteries that are helping power the electric carbon revolution (SDG7, SDG9, SDG11 and SDG13).

As an important part of its external expenditure to help local communities thrive, BHP aims to source and promote locally available goods and services. In FY22, the company made US $17.6 billion in payments to more than 8 000 suppliers in the regions which it operates. By FY30, BHP commits to achieve at least 30% reduction in operational GHG emissions, and to create nature-positive outcomes by having at least 30% of the land and water it stewards under conservation, restoration or regenerative practices.

DOMESTIC EQUITIES

Onsemi: Driving technology breakthroughs that deliver on the promise of a sustainable future

Positive alignment: 8, 9, 11
Negative alignment: 6

Onsemi is a world leader in semiconductor solutions. It supplies analog, standard logic, and discrete semiconductors for data and power management, driving disruptive innovations to help build a better future. Onsemi is committed to developing strategies and programs to address global climate change. It provides intelligent power and sensing solutions for the sustainable ecosystem such as electric vehicles, energy infrastructure, factory automation and safety applications (SDG8, SDG9 and SDG11).

As for Onsemi's ESG related targets, the company has pledged to achieve net zero emissions by 2040, supported by an interim target of using 50% renewable energy by 2030. In FY21, it introduced the Giving Now program to help make cities and human settlements inclusive, safe, resilient and sustainable. As active operators in a water intensive industry, the company works to address this issue by reducing its water consumption and recycling more water.

Waste Connections: Striving for a greener and cleaner tomorrow

Positive alignment: 7, 9, 11, 12
Negative alignment: 12

Waste Connections is a leading provider of solid waste collection, transfer, recycling and disposal services, along with recycling and resource recovery. It is committed to improving the future of the communities it serves, playing an integral part in improving environment quality by reducing landfill disposal, reducing greenhouse gas emissions, and harnessing biofuels (SDG7, SDG9, SDG11 and SDG12).

The company has set fifteen-year targets to increase resources recovered by at least 50%, increase biogas recovery by at least 40% and process at least 50% of leachate on-site. This year it announced scope 1 and 2 emission reduction targets of 15%. Over the past 2 years it reduced scope 1 and 2 emissions intensity by 18%, at the same time, growing revenues by ~17%. The company has announced $100 million for the construction of two recycling facilities and two renewable gas facilities at its landfills. When operational by 2024, these are projected to expand the annual recycling capacity by over 10% and the annual beneficial gas generation by approximately 15%, both compared to 2021 levels.

Inclusive economies

GLOBAL EQUITIES

Judo Capital: Bringing back the craft of relationship banking to transform banking for Australia's SMEs

Positive alignment: 8, 10
Negative alignment: N/A

Judo Capital is an Australian based financial services provider, offering lending solutions starting at $250 000, tailored to SMEs. The company uses judgement-based lending decisions to support, build and grow small and medium enterprises by securing the funding they need in a fair manner (SDG8 and SDG10). As of June FY22, Judo's loan book amounted to $6.1 billion, representing 73% growth over FY21, and it managed a customer base of 2763 SMEs. The business also expanded its national representation to 15 locations and opened two new specialisations in the agriculture and health sectors, which together represent 17% of the SME economy.

Emphasised in Judo's strategy is the sustainability of customers, financial inclusion and climate risks. ESG initiatives related to these areas include financial support to the Federal Government's SME Guarantee and SME Recovery Loan Scheme following COVID-19, community-giving projects where employee donations are matched up to an aggregate amount, and the development of a GHG emission reduction plan.

Wesfarmers: Committed to providing accessible and affordable products

Positive alignment: 2, 4, 8, 9, 10, 11
Negative alignment: 2, 6, 12, 13

Wesfarmers is one of Australia's most diverse companies with operations in retail, chemical, and financial services. Majority of the revenue is generated from its retail divisions Bunnings and Kmart Group. The bulk of Wesfarmers retail businesses sells affordable products that are accessible to all socioeconomic groups, so the company contributes to an inclusive economy along with several other societal improvements (SDG2, SDG4, SDG8, SDG9, SDG10 and SDG11).

Bunnings operates a network of more than 500 stores across Australia and New Zealand, with three core pillars supporting the customer proposition: lowest prices, widest range, and best experience. Among the ESG related initiatives that were undertaken during FY22 included $30 million in community contributions, and the reduction of scope 1 and 2 market-based emissions by 4.9%. A step to meet its operational net zero target by 2030. Kmart Group has a vision to make great quality products truly affordable for Australian families. During FY22, the divisional business contributed with $7.2 million to local communities and both it and Bunnings maintained a strong focus on creating employment opportunities for Indigenous and people with a disability.

DOMESTIC EQUITIES

MercadoLibre: Democratising consumption and financing in Latin America

Positive alignment: 1, 8, 10
Negative alignment: 12

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 has begun the process of migrating 100% of its operations to renewable energy sources.

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.

DBS Bank: Singapore's leading consumer bank, financing Singapore's growth since 1968

Positive alignment: 1, 8, 10
Negative alignment: 13

Founded in 1968, DBS is a leading financial services group in Asia with a presence in about 20 markets including Hong Kong, Mainland China, India, Indonesia and South Korea. Through innovation and digital technologies, the company explores ways to increase access to financial services, especially to traditionally underserved populations (SDG1, SDG8 and SDG10). DBS has a strong sustainability agenda, focusing on responsible banking, responsible business practices and impact beyond banking.

DBS was the first Singapore bank to commit to the Net Zero Banking Alliance, it aims to be net zero in its own operations by 2022 and it contributes to its local community, for instance by providing SGD 100 million in additional funding to further improve lives in Asia, and disbursed loans worth SGD 13.4 million at preferential rates to social enterprises. By 2024, DBS is to increase sustainable financing to SGD 50 billion and publish absolute emissions and emissions intensity for scope 3 financed emissions.

Healthy lives

GLOBAL EQUITIES

CSL: Developing medicines that save and improve lives to vaccines that protect them

Positive alignment: 3
Negative alignment: 12

CSL is a leading global biotechnology company with a dynamic portfolio of life saving medicines primarily derived from human plasma (SDG3). Over 80% of its revenue is generated from the CSL Behring segment, focusing on treating rare and serious diseases. The company has a strong research and innovation agenda, with US $1.16 billion being invested in R&D during FY21/22 and more than 2000 employees dedicated to research and development.

CSL is committed to fostering a healthier world and have identified ten focus areas across three strategic pillars - environment, social and workforce - that will help achieve its sustainability objectives. These focus areas include strengthening societal health through access to its existing products and therapies and investment in innovation, minimising end to end production of waste through removal, reduction and recycling, and enhancing its industry position as a patient-focused leader. For example, in FY21/22, CSL's investment for humanitarian access programs and product support initiatives across the world totalled US $17.8 million and in FY22, CSL achieved 24 product registrations or new indications across the globe, bringing new products to the market.

Virtus Health: Provide the highest quality of care across the full range of reproductive and fertility issues

Positive alignment: 3, 5
Negative alignment: 12

Virtus Health offers clinical, scientific, diagnostic services and day surgery for reproductive and fertility health care (SDG3 and SDG5). It is one of the top five Assisted Reproductive Services providers in the world with a market-leading position in Australia, Ireland and Denmark, and a growing presence in the UK and Singapore. With 44 fertility clinics, 64 laboratories and 7 specialist day hospitals, Virtus Health helps create families around the world. During FY21, the company facilitated almost 24,000 fresh IVF cycles, representing a 26.4% increase to FY20.

The market is growing as most OECD countries have seen the average age of women at childbirth increase between 2 and 5 years (1970-2019), while the average fertility rate has declined from 2.8 children per woman to 1.6 over the same time period. Hence, WHO estimates over 10% of women suffer from infertility and/or subfertility. The company strategy focuses on growth through innovation and is centred on four main areas: technology, science, innovation and scale and portfolio. The goals include improving IVF success rates and time to pregnancy, enhancing patient and clinician experience and gaining significant international presence across Europe with capacity to grow in Asia via the Singapore hub.

DOMESTIC EQUITIES

EssilorLuxottica: Help people enjoy the life-changing benefits of vision correction and vision protection

Positive alignment: 3, 4
Negative alignment: N/A

EssilorLuxottica is one of the world's leading manufacturers of ophthalmic lenses, frames and sunglasses. The group aims to respond to the world's growing vision needs by meeting the changing lifestyles of existing consumers and inventing new ways to reach the 2.5 billion people who suffer from uncorrected poor vision and the 6 billion people who do not protect their eyes from harmful rays (SDG3). 80% of what we learn is processed through our eyes, and since 2013 the group has provided 530 million people with access to sustainable vision care (SDG4).

The company has also brought forward the company-wide sustainability program "Eyes on the Planet", focusing on five pillars: carbon, circularity, world sight, inclusion and ethics. For example, the group has created over 19,000 sustainable access points throughout Asia, Africa and Latin America with the goal to provide access to vision care to 240 million people by the end of 2022. In addition, EssilorLuxottica is a founding partner of the $1 billion Vision Catalyst Fund initiative to bring eye care to all people in the Commonwealth around the world. To help achieve the mission, the group aims to donate 200 million pairs of lenses by 2030.

Agilent Technologies:

Positive alignment: 3, 9
Negative alignment: 13

Agilent Technologies is a global leader in the life sciences, diagnostics, and applied chemical markets. Across the world, 265 000 labs are using Agilent solutions, which includes instruments, software, services, and expertise. Its laboratory instruments and technologies help scientists' further disease research, develop advanced therapies, and ensure water, food, air and fuels are clean. Last year, the company invested $441 million in R&D in several technologies which are central to advancing quality of life, including pathology, genomics, informatics, and cell analysis (SDG3 and SDG9).

Agilent's ESG approach centres around what they call the "Four Ps" - people, products, planet, and prosperity. In FY21 Agilent committed to net zero emissions by 2050, achieved 94% solid waste diversion, and provided a grant of $138 403 to the United Way of India to quickly deliver essential medical equipment to treat COVID-19 patients. In addition, the company recently became a top-level sponsor of My Green Lab, a non-profit organization dedicated to improving sustainability of scientific research.

Climate action

GLOBAL EQUITIES

IGO: Changing the way communities grow, prosper and stay sustainable

Positive alignment: 7, 9, 11
Negative alignment: 6, 13

IGO is an Australian based exploration and mining company with a strategic focus on assets of longevity and supplying metals that are critical for clean energy, namely nickel and lithium. They seek better ways to explore, extract metals from the earth and process into battery products while reducing environmental impacts and improving resource efficiency (SDG7, SDG9 and SDG11).

It's aspiration to be a globally relevant supplier of products that facilitate green energy is reflected in IGOs own commitment to become carbon neutral across its business by 2035. The company is also a core member of the Electric Mine Consortium, joining forces with other industry members to ensure industry acceleration towards fully electrified, zero CO2 and zero particulate mines.

Embracing renewable energy infrastructure, such as the solar farm at its Nova Operation, is one of the steps IGO have taken and will continue to take to combat climate change. During FY21, it also recycled 566t of waste, including 73t of compostable food and organic waste from its Nova operation.

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

Positive alignment: 6, 9, 11
Negative alignment: N/A

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

Fluence Corp 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 (SDG11).

Fluence Corp 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 efficient 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.

DOMESTIC EQUITIES

Vestas Wind Systems: Bringing sustainable energy solutions to power a bright future

Positive alignment: 7, 9, 11, 13
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 has installed 151GW of turbines globally (SDG9, SDG11 and SDG13).

Vestas has taken responsibility over its own operations and committed to carbon neutrality by 2030, without the use of offsets. This journey is well underway – in FY21 the company sourced 100% of its own electricity from renewable sources and integrated hybrid and electric vehicles in the fleet.

In addition, Vestas engaged 50 strategic suppliers (up from 10 in FY21) in carbon footprint and waste reduction initiatives. This included the introduction of a new digital platform that receives information from suppliers to help them calculate CO2 and waste data. As a result of the company's efforts, Vestas was ranked the most sustainable company in the world in January 2022, based on a detailed assessment of 6914 publicly listed companies, each with more than US $1 billion in revenue.

Schneider Electric: Digital products that support new energy systems

Positive alignment: 7, 9, 13
Negative alignment: N/A

Schneider Electric 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 and SDG13). Schneider is driving expansion into South East Asia and has since established a strong business foundation in Singapore.

The company has ESG management strategies at its core, covering six thematic commitments which include aspect 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 over 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, provide access to green electricity to 50 million people and help their customers save and avoid 800 millions of tonnes of CO2 emissions.

APPENDIX

Appendix 1. FY22 company ESG engagements

DOMESTIC ESG ENGAGEMENTS

Company	Timing	Focus areas
Goodman Group	Jul-21	ESG integration
Rio Tinto	Aug-21	Heritage management, ESG integration
BlueScope Steel	Aug-21	Climate change, sustainability outcomes
Santos	Aug-21	Climate change, sustainability outcomes
Origin Energy	Aug-21	Climate change, sustainability outcomes
Cleanaway	Aug-21	Sustainability outcomes, waste, DEI
Lifestyle Communities	Aug-21	Climate change, sustainability outcomes
Costa Group	Aug-21	Supply chain, human rights, water
Wesfarmers	Aug-21	Governance, circular economy, waste
Fortescue Metals Group	Aug-21	Climate change, sustainability outcomes
Orica	Aug-21	Climate change
Lynas	Sep-21	Climate change, water, community
CSR	Sep-21	H&S, disclosure
Incitec Pivot	Sep-21	Climate change, ESG integration
Steadfast Group	Sep-21	Sustainability outcomes
Qube	Sep-21	Modern slavery, human rights, climate change, H&S
Wesfarmers	Sep-21	Climate change, supply chain, waste
Commonwealth Bank of Australia	Sep-21	Governance, climate change
Woolworths	Sep-21	Sustainability outcomes, animal welfare, DEI
Bapcor	Sep-21	ESG integration, DEI
BlueScope Steel	Sep-21	Climate change, ESG integration
Super Retail Group	Oct-21	ESG integration, modern slavery, H&S
Woodside Energy	Oct-21	Modern slavery, human rights
JB Hi-Fi	Oct-21	DEI, supply chain
Wesfarmers	Oct-21	ESG integration
Medibank Private	Oct-21	ESG integration, sustainability outcomes
Iluka Resources	Oct-21	ESG integration, sustainability outcomes
BHP	Oct-21	Climate change

GLOBAL ESG ENGAGEMENTS

Company	Timing	Focus areas
HelloFresh	Jul-21	ESG integration, waste, supply chain
Ecolab	Jul-21	Climate change
Partners Group	Jul-21	ESG integration, DEI, modern slavery
E.ON	Jul-21	Climate change, ESG integration
Hain Celestial	Jul-21	Governance, ESG integration, human rights
Lowes	Jul-21	Governance, human rights, controversies
Otis Elevators	Aug-21	Governance, human rights, DEI, climate change
Arthur J Gallagher	Aug-21	Climate change, disclosure
Daimler	Aug-21	ESG integration, DEI, climate change
Ball Corp	Aug-21	Climate change, H&S, water
Danaher	Aug-21	ESG integration, climate change
Garmin	Sep-21	ESG integration, H&S, climate change
Keysight	Sep-21	Human rights, H&S
Schneider Electric	Sep-21	ESG integration, climate change
Infineon	Sep-21	ESG integration, DEI
Morgan Stanley	Sep-21	Climate change, sustainability outcomes, sustainable financing
Erste Group	Sep-21	ESG integration, sustainable financing
Volvo	Sep-21	Climate change, modern slavery
Blackstone	Sep-21	ESG integration, climate change
MercadoLibre	Oct-21	Climate change, human rights, cyber security
KBC Group	Oct-21	Sustainability outcomes, climate change
Nomad Foods	Oct-21	Governance, ESG integration
John Deere	Oct-21	Climate change, disclosure
Darling Ingredients	Oct-21	ESG integration, H&S
Morgan Stanley	Oct-21	ESG integration, sustainable financing
Accenture	Oct-21	DEI, controversies
First Republic Bank	Oct-21	Climate change, ESG integration

DOMESTIC ESG ENGAGEMENTS

Company	Timing	Focus areas
Goodman Group	Oct-21	ESG integration
South 32	Nov-21	ESG integration, sustainability outcomes
Wesfarmers	Nov-21	Climate change, disclosure
Bapcor	Nov-21	Governance
South 32	Nov-21	Heritage management, community, H&S
NAB	Nov-21	Climate change, ESG integration
WBC	Nov-21	Climate change, ESG integration
Woodside Energy	Nov-21	Climate change, sustainability outcomes, community
Cleanaway	Nov-21	DEI, H&S, ESG integration
NAB	Nov-21	Governance, climate change
Viva Energy	Dec-21	Governance, climate change
Incitec Pivot	Dec-21	Climate change, disclosure
Macquarie Group	Dec-21	Climate change
BHP	Dec-21	Climate change, governance
Woodside Energy	Dec-21	Climate change
Viva Energy	Jan-22	Governance
Megaport	Jan-22	Governance
BHP	Feb-22	Climate change, ESG integration, DEI
Orora	Feb-22	Climate change, waste, disclosure
Woodside Energy	Feb-22	Climate change, DEI
BlueScope Steel	Feb-22	Climate change, DEI, waste
Cleanaway	Feb-22	Climate change, DEI
South 32	Feb-22	Climate change, DEI
Santos	Feb-22	Emissions, workplace culture
Lynas	Mar-22	Water, climate change, DEI
Rio Tinto	Mar-22	Controversies, DEI, H&S
Oz Minerals	Mar-22	DEI, ESG integration
South32	Mar-22	ESG integration, climate change
Orora	Mar-22	Waste, sustainability outcomes
IGO	Mar-22	DEI
Cleanaway	Mar-22	DEI, ESG integration
Iluka Resources	Mar-22	DEI
BHP	Mar-22	DEI
South 32	Apr-22	DEI
Fortescue Metals Group	Apr-22	DEI
Lynas	Apr-22	DEI, ESG integration
QBE Insurance	Apr-22	Climate change, disclosure

GLOBAL ESG ENGAGEMENTS

Company	Timing	Focus areas
DSM	Nov-21	Climate change, modern slavery, human rights
Dexcom	Nov-21	ESG integration, disclosure, H&S
Adyen	Nov-21	Climate change, DEI
Merck & Co	Nov-21	ESG integration, modern slavery
Nomad Foods	Nov-21	Governance, sustainability outcomes
Republic Services Group	Nov-21	Climate change, waste
Trane Technologies	Nov-21	Climate change, sustainability outcomes
Intercontinental Exchange	Nov-21	Climate change, ESG integration
Nestle	Nov-21	Climate change, sustainability outcomes, supply chain
S&P Global	Nov-21	ESG integration, climate change, DEI
ASML	Dec-21	ESG integration, DEI, modern slavery, climate change
Otis Elevators	Dec-21	Climate change, ESG integration, human rights
Onsemi	Dec-21	Climate change, ESG integration, H&S, modern slavery
Recruit Holdings	Dec-21	Governance, ESG integration, modern slavery
Mettler Toledo	Dec-21	Modern slavery, climate change
Clean Harbors	Dec-21	Climate change, H&S, DEI
Charles Schwab	Dec-21	ESG integration, sustainability outcomes
Nvidia	Dec-21	Disclosure, ESG integration, modern slavery, climate change
Keysight	Dec-21	Governance, sustainability outcomes
Colgate	Dec-21	ESG integration, supply chain, animal welfare
Advanced Drainage Systems	Dec-21	Climate change, ESG integration, DEI
Trade Web	Dec-21	Climate change, ESG integration
Kroger	Dec-21	ESG integration
ING	Dec-21	ESG integration, climate change
Amazon	Jan-22	Climate change, ESG integration, DEI
Ulta Beauty	Jan-22	Climate change

DOMESTIC ESG ENGAGEMENTS

Company	Timing	Focus areas
QBE Insurance	Apr-22	ESG integration
Santos	Apr-22	Climate change, ESG integration
Viva Energy	Apr-22	ESG integration
BHP	May-22	DEI, ESG integration
Life 360	May-22	Governance
Rio Tinto	May-22	ESG integration, DEI, H&S
Woolworths	May-22	Climate change, ESG integration, DEI
Suncorp	May-22	Supply chain, modern slavery, disclosure
NAB	May-22	Climate change, sustainability outcomes
Qantas Airways	Jun-22	Climate change, ESG integration
Rio Tinto	Jun-22	Governance, ESG integration
Goodman Group	Jun-22	Governance
Treasury Wine Estates	Jun-22	ESG integration, climate change

GLOBAL ESG ENGAGEMENTS

Company	Timing	Focus areas
Nvidia	Jan-22	Disclosure, ESG integration, climate change
Agilent Technologies	Jan-22	ESG integration, modern slavery
Halma	Jan-22	ESG integration
EssilorLuxottica	Jan-22	ESG integration, climate change, human rights
HDFC Bank	Feb-22	Climate change, sustainability outcomes
NextEra Energy	Feb-22	Climate change, disclosure
UnitedHealth Group	Feb-22	Climate change, cyber security
Linde	Feb-22	ESG integration, DEI, climate change
Verbund	Feb-22	ESG integration, climate change
Signify	Feb-22	ESG integration, climate change, human rights
PepsiCo	Feb-22	Climate change, waste
Wells Fargo	Feb-22	ESG integration, governance
Albemarle	Mar-22	Climate change
Bank of America	Mar-22	ESG integration, sustainable financing
Arch Capital	Mar-22	Climate change, ESG integration
Keysight	Mar-22	Modern slavery, water

GLOBAL ESG ENGAGEMENTS

Company	Timing	Focus areas
LVMH	Mar-22	Supply chain, climate change, waste, DEI
Kerry Group	Mar-22	Supply chain, sustainability outcomes
Danimer Scientific	Mar-22	Climate change, waste
Sika	Mar-22	Climate change, ESG integration, human rights
Waste Connections	Apr-22	Climate change, H&S, waste
Nextera Energy	Apr-22	Climate change
Prologis	Apr-22	Governance, modern slavery, climate change H&S
SVB Financial Group	Apr-22	ESG integration, sustainable financing
Apple	May-22	ESG integration, human rights, climate change
Albemarle	May-22	Climate change, water, heritage management
Drax	May-22	Supply chain, climate change
Steris	May-22	Climate change, disclosure, ESG integration
Novo Nordisk	May-22	ESG integration, modern slavery
Chubb	Jun-22	Climate change
Tractor Supply	Jun-22	Climate change, supply chain, human rights
Estee Lauder	Jun-22	ESG integration, disclosure, climate change
Relx	Jun-22	Human rights, cybersecurity
Experian	Jun-22	ESG integration, sustainability outcomes
Schneider Electric	Jun-22	ESG integration, disclosure
Vestas Wind Systems	Jun-22	Modern slavery
Cargotec	Jun-22	H&S, climate change

Appendix 2. SDG alignment FY22 holdings[13]

DOMESTIC

Company	Positive SDG score								Negative SDG score								Net SDG score quartile
	High (SDG score >50%)				Low (SDG score <50%)				High (SDG score >-50%)				Low (SDG score <-50%)				
Communication services																	
Carsales.com					8	10											3
Seek	8																2
Telstra	8				9												4
Consumer discretionary																	
Bapcor	11																3
Carbon Revolution	9				11												2
JB Hi-Fi					4	8							12				4
Super Retail Group					3	11							12				4
Wesfarmers[15]					8	9	10	11					2	6	12	13	4
Consumer staples																	
Costa Group	2	3			10								6	12			2
Woolworths	2				3	10							3	12			4
Financials																	
ANZ Bank	1				8								13				3
Commonwealth Bank of Australia	1				8								13				3
Judo Capital	8				10												2
Liberty Financial	1				8	10											3
Macquarie Group	8				1								13				4
Medibank Private	3																3
National Australia Bank					1	2	8						13				3
Perpetual					8								13				4
QBE Insurance	8																3
Steadfast Group	8																4
Suncorp	8	11															1
Westpac Banking Corp	1				8								13				3
Health care																	
Cochlear	3	4			10												1
CSL	3												12				1
EBOS	3																2
Fisher & Paykel Healthcare	3																1
Resmed	3																2
Sonic Healthcare	3												12				4
Virtus Health	5				3								12				2
Industrials																	
Cleanaway	11				6	9							12				1
Fluence Corp	6	9	11														1
Qantas Airways					8	10			13								4
Reliance Worldwide	11				6												2
Transurban	11				8	9							12	13	15		3
Information technology																	
Life360	16																4
Megaport	9																4
Pushpay	17																2

[13] The data in this table is categorised according to its positive and negative alignment to the SDGs (>50% SDG score shows stronger alignment, or <50% SDG score shows weaker alignment)

[15] Wesfarmers: Small alignment to SDG2 and SDG4 (<10% score) not included in the table

DOMESTIC

Company	Positive SDG score								Negative SDG score								Net SDG score quartile
	High (SDG score >50%)				Low (SDG score <50%)				High (SDG score >-50%)				Low (SDG score <-50%)				
Materials																	
BHP	9	11			7	13							6	13	15		3
BlueScope Steel	9				11	12			13								1
CSR	9	11			12								13				1
Deterra Royalties	9	11			13								6	13	15		2
Fortescue Metals Group	9	11			13								6	13	15		2
IGO	9				7	11							6	13			1
Iluka Resources	9				11								6	13			3
James Hardie	9	11															1
Lynas Rare Earths	9	11			7				6				12	13			2
Orora	8				9	12							12				4
Oz Minerals	9				7	11							6	13			4
Rio Tinto	9				7	11	13						6	13	15		2
Sims Metal	9	12			11												1
Real estate																	
Goodman Group	9				8								12				3
Lifestyle Communities	3				10	11											1
Utilities																	
New Energy Solar	7	11	13														1

GLOBAL

Company	Positive SDG score								Negative SDG score								Net SDG score quartile
	High (SDG score >50%)				Low (SDG score <50%)				High (SDG score >-50%)				Low (SDG score <-50%)				
Communication services																	
Alphabet	8				4	9	17		12				16				3
Consumer discretionary																	
Chipotle Mexican Grill	2												12				4
EssilorLuxottica	3	4															1
HelloFresh	2				3	12							12				2
Lowes					9	11	12										4
MercadoLibre					1	8	10						12				2
Mercedes-Benz					9	11	13						13				4
Nike	3				5								12				4
PulteGroup	11				9								12	15			4
Tesla	9	11	13		7												1
Consumer staples																	
Kerry Group	9	12			2	3							3				2
Nomad Foods	2				3	12							12				3
Procter & Gamble	3				5	9							12	14			4

GLOBAL																	
Company	Positive SDG score								Negative SDG score								Net SDG score quartile
	High (SDG score >50%)				Low (SDG score <50%)				High (SDG score > -50%)				Low (SDG score < -50%)				
Financials																	
AIA Group	3																3
Charles Schwab	8																4
Chubb	8				1	2	11										2
DBS Bank					1	8	10						13				3
Deutsche Boerse AG	8				12	13	17	10					13				3
Erste Group Bank	1				8	10											2
ING	1				8								13				3
Morgan Stanley	8												13				4
Partners Group	8				7	9							13				3
SVB Financial Group	8				9												2
S&P Global	8				12	17							13				3
Health care																	
Agilent Technologies	9				3								13				2
Danaher	9				3	6							12				2
Eli Lilly	3												3				1
HCA	3	11											12	13			3
Merck & Co	3				5												1
UnitedHealth Group	3												3				4
Industrials																	
John Deere	9				2	6							13	15			3
Otis Elevators	9	11															1
Recruit Holdings	8				10												1
Schneider Electric	7	9	13														1
Trane Technologies	11				2	9											3
Vestas Wind Systems	7	9	11	13													1
Volvo	9				8	11							13				4
Waste Connections	11				7	9	12						12				2
Information technology																	
Adobe					8												4
Accenture					3	8							13	16			4
Apple	8				4	10							12				4
ASML	8	9															1
Infineon	8	9			11								6				1
Keysight	8				9	11											2
MasterCard					8												4
Microsoft	4	8											3	13			2
Nvidia	8				3	9	11						3				2
Onsemi	8	9			11								6				1
Visa					8												4
Materials																	
Ball Corp	12				9												3
DSM[16]					2	3	9	12					13				3
Sika	9	11			13								6				1
Real estate																	
American Tower	8	9			10	17							13				1
Prologis	9				8								12				2

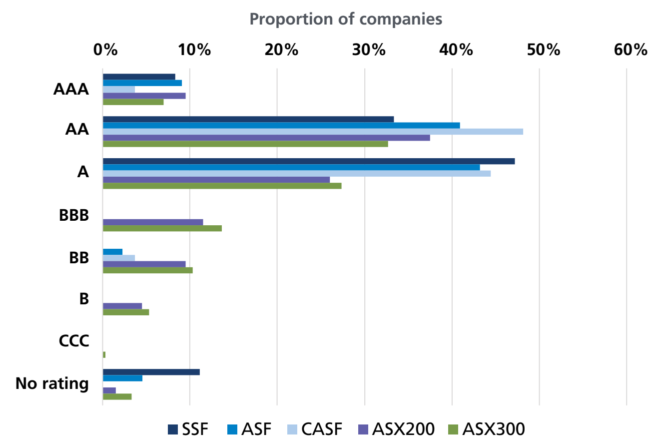
[16] DSM: Small alignment to SDG13 and SDG14 (<5% score) not included in the table

Appendix 3. Third-party ESG data

MSCI rating distribution and weighted average E, S and G scores

DOMESTIC

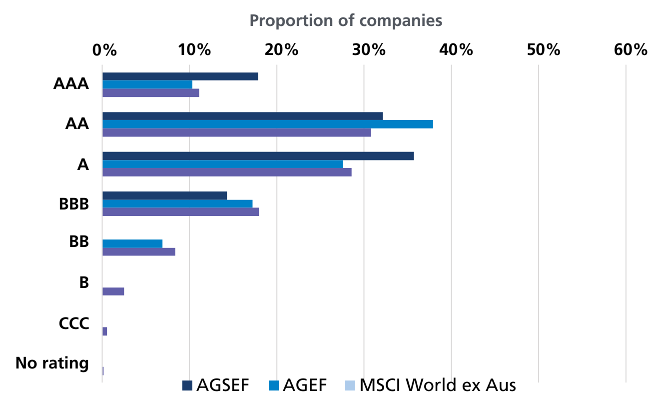
Domestic ESG rating distribution (MSCI)



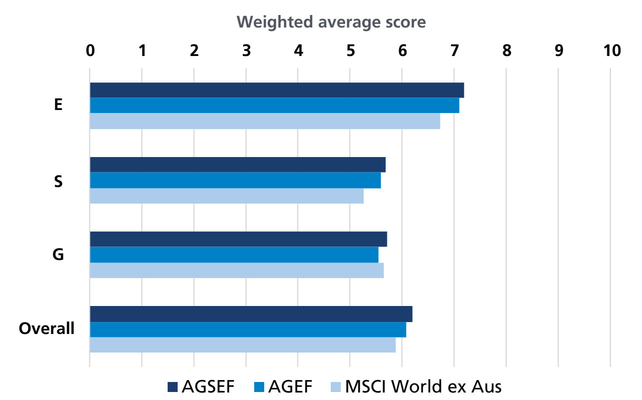
Domestic ESG scores (MSCI)

GLOBAL

Global ESG rating distribution (MSCI)



Global ESG scores (MSCI)



Source: Alphinity, MSCI data as at 30 June 2022. This is primarily used for third-party benchmarking. ESG ratings and scores are not material ESG inputs unless the specific issue raised is consistent with our internal ESG views.

Fossil fuel exposure (FY22 holdings)

Company	Fund	Revenue: Fossil fuel production – Thermal coal[23]	Revenue: Fossil fuel production – Oil & gas[24,25]	Revenue: Energy generation – Thermal coal[26]	Revenue: Energy generation – Oil & gas[27]	Revenue: Energy generation – Natural gas[28]
DOMESTIC						
BHP	Core, Concentrated, Sustainable	1.8%	6.4%	0%	0%	0%
South32	Core, Concentrated	0%	0%	0%	0%	0%
Santos	Core, Concentrated	0%	100%	0%	0%	0%
Strike Energy	Core	0%	100%	0%	0%	0%
Seven	Core	0%	0.1%	0%	0%	0%
Woodside Energy	Core, Concentrated	0%	100%	0%	0%	0%
GLOBAL						
Nextera Energy	Core	0%	0%	1.5%	34.7%	34.6%

Source: MSCI, as at 30 June 2022

[23] This factor identifies the maximum percentage of revenue (either reported or estimated) greater than 0% that a company derives from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. It excludes: revenue from metallurgical coal; coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined thermal coal; and revenue from coal trading.

[24] This factor identifies the maximum percentage of revenue (either reported or estimated) greater than 0% that a company derives from conventional oil and gas. It includes all types of conventional oil and gas production including Arctic onshore/offshore, deepwater, shallow water and other onshore/offshore. It excludes revenues from unconventional oil & gas (oil sands, shale oil, shale gas).

[25] This factor identifies the maximum percentage of revenue (either reported or estimated) greater than 0% that a company derives from unconventional oil and gas. It includes revenues from oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas, and coal bed methane. It excludes all types of conventional oil and gas production including Arctic onshore/offshore, deepwater, shallow water and other onshore/offshore.

[26] This factor identifies the maximum percentage of revenue (either reported or estimated) that a company derives from the thermal coal based power generation.

[27] This factor identifies the maximum percentage of revenue (either reported or estimated) that a company derives from liquid fuel and natural gas based power generation.

[28] This factor identifies the maximum percentage of revenue (either reported or estimated) that a company derives from the natural gas based power generation.

Appendix 4. TCFD disclosure

MSCI rating distribution and weighted average E, S and G scores

TCFD category	Disclosure	Addressed	Reference and comments
Governance	**a.** Describe the board's oversight of climate-related risks.	Yes	See the Climate Change Statement
	b. Describe management's role in assessing and managing climate-related risks and opportunities.	Yes	See the Climate Change Statement
Strategy	**a.** Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long-term.	Yes	See the Climate Change Statement
	b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Yes	See the Climate Change Statement
	c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	No	We have not conducted scenario analysis, however, we take different scenarios into consideration when analysing individual companies and their resilience to climate change risks.
Risk management	**a.** Describe the organisation's processes for identifying and assessing climate-related risks.	Yes	See the Climate Change Statement and a summary in the climate change section of this report
	b. Describe the organisation's processes for managing climate-related risks.	Yes	See the Climate Change Statement and a summary in the climate change section of this report
	c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Yes	See the Climate Change Statement
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	See the climate change section of this report
	b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	Yes	See the climate change section of this report
	c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	No	We are considering the possibility of setting targets related to climate change. As yet, no definitive commitment has been made.

Appendix 5. FY22 carbon metrics

Top 5 carbon contributors per fund

DOMESTIC

Company	Net Zero	Interim Targets	TCFD	FY22 progress
Australian Share Fund				
South32	2050		✓	• Set net zero Scope 3 GHG emissions target (2060) and committed not to develop or invest in metallurgical coal projects • Linked long-term executive remuneration to progress on climate change commitments **Engagement focus:** Interim short-term targets between now and 2032 and greater carbon reduction measures on sites beyond Hillside Aluminium.
Santos	2040	✓	✓	• Achieved 20% reduction in scope 1 and 2 emissions intensity across the entire portfolio • Progress in finalising the Moomba CCS project **Engagement focus:** Letter sent to board requesting targets around production of clean fuel as a percentage of the overall fuel mix (including a timeframe), measurement of methane emissions and carbon reduction plans for each asset.
BlueScope Steel	2050	✓	✓	• 4% reduction in steelmaking GHG emissions intensity, and 4% reduction in non-steelmaking GHG emissions intensity since FY18 • Accelerating development of recycled scrap in mix and green hydrogen pilot plants **Engagement focus:** Commitments for steel production emissions intensity.
Qantas Airways	2050	✓	✓	• Fleet renewal program reducing emissions by 15% at minimum • Interim target of 25% carbon emission reduction and a sustainable aviation fuel (SAF) target of 10% in our fuel mix, both by 2030 **Engagement focus:** Stronger disclosures, carbon offset projects and SAF progress.
Woodside Energy	2050	✓	✓	• Accelerating hydrogen and ammonia production facility with a target for net equity scope 1 and 2 emissions is 10% below that of the 2016-2020 gross annual average • Initiatives taken to address methane emissions **Engagement focus:** Expanding climate scope to all equity emissions, measurement of methane emissions, improving clean fuel in the mix.
Concentrated Australian Share Fund				
South32	2050	✓	✓	See above
Santos	2040	✓	✓	See above
BlueScope Steel	2050	✓	✓	See above
Woodside Energy	2050	✓	✓	See above
Iluka Resources	-	⏱	✓	• Appointed Head of Climate Change Response and expanding solar installation • Introduced a hybrid electricity facility at the Jacinth-Ambrosia operation, reducing the site's scope 1 emissions by approximately 10% **Engagement focus:** Publishing a carbon commitment and exploring transition opportunities for low ash coal in operations.

DOMESTIC

Company	Net Zero	Interim Targets	TCFD	FY22 progress
Sustainable Share Fund				
BlueScope Steel	2050	✓	✓	See above
Qantas Airways	2050	✓	✓	See above
Iluka Resources	-	⏱	✓	See above
Cleanaway	2050	✓	✓	• Established 2030 and 2050 emissions reduction targets • Generated 190gWh from landfill gas capture and exploring hydrogen mobility projects **Engagement focus:** Improve disclosures in recycled content, electrifying fleet and improving landfill gas capture and methane emissions.
Rio Tinto	2050	✓	✓	• Brought forward the target of a 15% reduction in absolute Scope 1 and 2 emissions from 2030 to 2025 and established a new target to achieve a 30% reduction by 2030 • Investing in low-carbon aluminium and green hydrogen opportunities **Engagement focus:** Broader progress on decarbonisation strategy.

GLOBAL

Company	Net Zero	Interim Targets	TCFD	FY22 progress
Global Equity Fund				
Nextera Energy	2045	✓	✓	Achieved a 25% reduction in absolute CO2 tons emitted, compared to a 2005 adjusted baseline reflecting shift from coal energy generation Committed to zero emissions by 2045 and announced plans for its first green hydrogen project Engagement focus: Climate strategy and shift away from fossil fuel energy generation, with ongoing discussion on the transition of gas energy generation assets.
Waste Connections	-	✓	✓	Reduced scope 1 and 2 CO2 emission intensity by 12% in 2021, resulting in a two-year reduction in by 18% Invested in renewable natural gas production facilities and methane capture facilities Engagement focus: Developments in setting an absolute emissions reduction target and methodology that sits beneath the company's net negative claim.
Onsemi	2040	✓	✓	Developed a net-zero 2040 strategy that includes targets such as committing to 50% renewable energy by 2030 and 100% renewable energy by 2040 Engagement focus: Progress on TCFD reporting, and renewable energy procurement.
Albemarle	2050	✓	✓	Reduced total Scope 1 and 2 emissions by 3.8% on year-on-year basis Began assessing Scope 3 GHG emissions to reduce emissions across the supply chain Engagement focus: Emissions reduction in processing operations, scope 3 emissions and hard-rock lithium mining.
American Tower	-	✓	✓	Reduced operational Scope 1 and 2 GHG emissions by 6.5% compared to a 2019 baseline Achieved 78% of its second-generation renewable energy goal through lithium-ion battery energy storage systems and solar capacity Engagement focus: Expanding solar and battery use to reduce fossil fuels in developing countries.

GLOBAL				
Company	**Net Zero**	**Interim Targets**	**TCFD**	**FY22 progress**
Global Sustainable Equity Fund				
Waste Connections	-	✓	✓	See above
Onsemi	2040	✓	✓	See above
DSM	2050	✓	✓	Accelerated its science-based target for GHG emissions reduction from 30% to 50% by 2030 Engagement focus: Shifting coal-based operations to natural gas and/or renewable energy.
Kerry Group	2050	✓	✓	Updated science-based target to align with a 1.5°C pathway, increasing 2030 emissions reduction target from 33% to 55% 65% of electricity needs classified as renewable Engagement focus: Broader climate strategy and emissions benefit of alternative food portfolios.
Ball Corp	2050	✓	-	Sourced 44% of its global electricity demand in 2021 from renewables Set up a collaboration with a primary aluminium producer to produce aerosol cans with a reduced carbon footprint Engagement focus: Reducing operational emissions and increasing recycled content.

Source: Alphinity, MSCI carbon data as at 30 June 2022 to determine largest contributors

Portfolio carbon metrics

	Weighted Average Carbon Intensity (tonnes CO2e/$USm revenue)		Carbon Footprint (tonnes CO2e/$AUDm invested)		Total Carbon Emissions (tonnes)	
	FY21	**FY22**	**FY21**	**FY22**	**FY21**	**FY22**
Australian Share Fund	195.0	274.6	93.0	106.2		
Concentrated Australian Share Fund	198.0	268.4	95.0	103.8		
Sustainable Share Fund	125.0	99.2	65.0	51.4		
Domestic Combined	**192.0**	**243.7**	**92.0**	**96.3**		
Global Equity Share Fund	81.0	186.2	14.0	28.1		
Global Sustainable Equity Share Fund	22.0	62.1	7.0	26.7		
Global Combined	**30.0**	**186.3**	**8.0**	**14**		
Alphinity Combined	**148.0**	**221.9**	**69.3**	**69.9**	**992 994**	**787 895**

Source: Alphinity, MSCI carbon data as at 30 June 2021 and 30 June 2022

KPMG

Independent Limited Assurance Report to the Directors of Alphinity Investment Management

Conclusion

Based on the evidence we obtained from the procedures performed, we are not aware of any material misstatements in the selected narrative disclosures and key performance indicators in the 2022 ESG and Sustainability Report, which has been prepared by Alphinity Investment Management in accordance with Alphinity policies, procedures, and methodologies the Criteria for the reporting period 1 July 2021 to 30 June 2022.

Information Subject to Assurance

The selected narrative disclosures and key performance indicators as presented in the 2022 ESG and Sustainability Report of Alphinity Investment Management (the "Company") and available on the Company's website, comprised the following:

Selected narrative disclosures and key performance indicators	Value Assured	Reference
Total carbon emissions (tonnes CO2e)	787,896	Appendix 1
Domestic Total carbon emissions (tonnes CO2e)	672,998	
Global Total carbon emissions (tonnes CO2e)	114,898	
Carbon footprint of investment portfolio (CO2e/$AUDm invested)	69.9	Appendix 1
Domestic Carbon footprint of investment portfolio (CO2e/$AUDm invested)	96.3	
Global Carbon footprint of investment portfolio (CO2e/$AUDm invested)	26.8	
Weighted average carbon intensity (CO2e/$USm revenue)	221.9	Appendix 1
Domestic Weighted average carbon intensity (CO2e/$USm revenue)	243.7	
Global Weighted average carbon intensity (CO2e/$USm revenue)	186.3	
SDG Alignment FY22 holdings	See Ref	Appendix 2
Domestic Weighted portfolio SDG Alignment Score	See Ref	Appendix 3
Global Weighted portfolio SDG Alignment Score	See Ref	Appendix 4
Selected narrative disclosures in relation to the Alphinity Sustainable Development Goal (SDG) Alignment Framework over investment portfolios.	Narrative testing complete	N/A

Criteria Used as the Basis of Reporting

The criteria used in relation to the 2022 ESG and Sustainability Report are Alphinity's policies, procedures, and methodologies *("the criteria") as described at:*

- Alphinity's own SDG Alignment Framework (outlined on p36 of the ESG and Sustainability Report 2022), and
- The Task Force on Climate-Related Financial Disclosures (TCFD) recommendations for carbon metrics (outlined on p46 of the ESG and Sustainability Report 2022):
    - Weighted average carbon intensity (CO2e/$USm)
    - Total carbon emissions: (tonnes CO2e)
    - Carbon footprint (CO2e/$AUDm).

Basis for Conclusion

We conducted our work in accordance with Australian Standard on Assurance Engagements ASAE 3000 (Standard). In accordance with the Standard we have:

- used our professional judgement to plan and perform the engagement to obtain limited assurance that we are not aware of any material misstatements in the information subject to assurance, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however we do not express a conclusion on their effectiveness; and
- ensured that the engagement team possess the appropriate knowledge, skills and professional competencies.

Summary of Procedures Performed

Our limited assurance conclusion is based on the evidence obtained from performing the following procedures:

- enquiries with relevant Alphinity personnel to understand the internal controls, governance structure and reporting process of the [information subject to assurance;
- reviews of relevant documentation including the SDG Alignment Framework and ESG indicators;
- analytical procedures over the SDG Alignment Framework and ESG indicators;
- walkthroughs of the SDG Alignment Framework and ESG indicators to source documentation;
- evaluating the appropriateness of the criteria with respect to the SDG Alignment Framework and ESG indicators; and
- reviewed the 2022 ESG and Sustainability Report in its entirety to ensure it is consistent with our overall knowledge of assurance engagement.

How the Standard Defines Limited Assurance and Material Misstatement

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Misstatements, including omissions, are considered material if, individually or in the aggregate, they could reasonably be expected to influence relevant decisions of the Directors of Alphinity.

Use of this Assurance Report

This report has been prepared for the Directors of Alphinity for the purpose of providing an assurance conclusion on the SDG Alignment Framework and ESG indicators and may not be suitable for another purpose. We disclaim any assumption of responsibility for any reliance on this report, to any person other than the Directors of Alphinity, or for any other purpose than that for which it was prepared.

Management's responsibility

Management are responsible for:

- determining that the criteria is appropriate to meet their needs
- preparing and presenting the SDG Alignment Framework and ESG indicators in accordance with the criteria; and
- establishing internal controls that enable the preparation and presentation of the SDG Alignment Framework and ESG indicators that is free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to perform a limited assurance engagement in relation to the SDG Alignment Framework and ESG indicators for the reporting period 1 July 2021 to 30 June 2022, and to issue an assurance report that includes our conclusion.

Our Independence and Quality Control

We have complied with our independence and other relevant ethical requirements of the *Code of Ethics for Professional Accountants (including Independence Standards)* issued by the Australian Professional and Ethical Standards Board, and complied with the applicable requirements of Australian Standard on Quality Control 1 to maintain a comprehensive system of quality control.

KPMG

KPMG

16th December 2022

Disclaimer

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INVESTMENT MANAGEMENT