2022 ESG and Sustainability Report

Alphinity Investment Management

alphinity
INVESTMENT MANAGEMENT

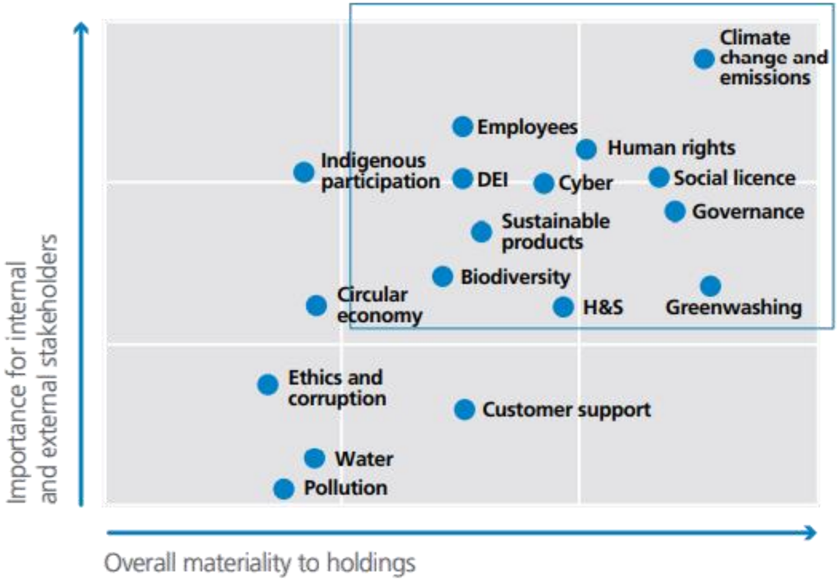
About this report

This report has been structured around a set of material issues, identified through:

Analysis of Alphinity's internal ESG materiality assessments

A workshop with Alphinity team members

Interviews with clients



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

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:

- ESG Policy
- Stewardship Policy
- Fact sheets: Climate Change, Modern Slavery, Sustainable Investing

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

5 pillars of responsible investment

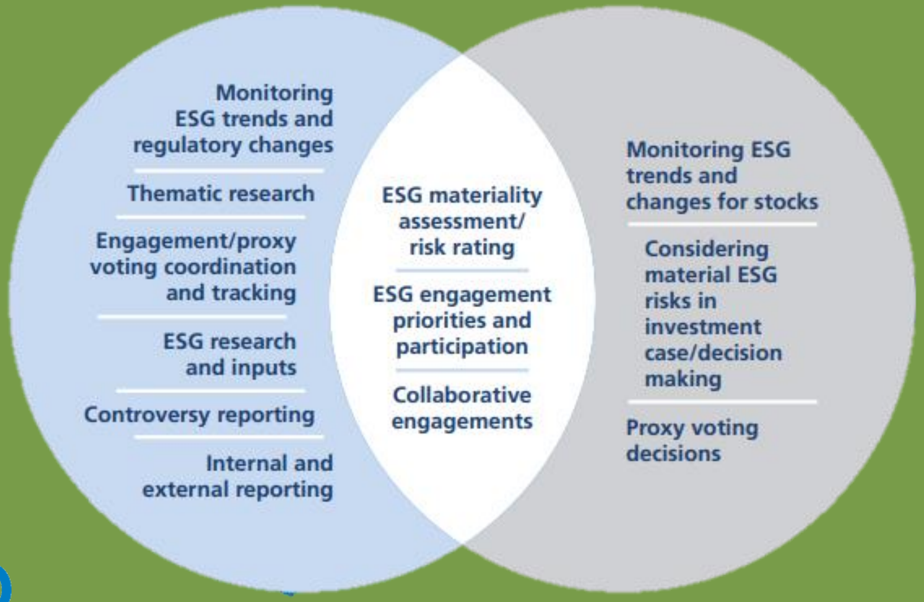
Pillar	Goal	FY22 update
ESG integration *We integrate ESG factors into investment decision making*	Use an ESG materiality process to identify ESG risks and opportunities for holdings	• We introduced an internal ESG risk level as an enhancement to our established ESG materiality process. • Any stock assessed at the highest risk level of 'avoid' has not met Alphinity's 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 have developed engagement objectives and tracked progress for material ESG issues across our holdings.
	Vote all resolutions put to shareholders	• We voted on 100% of proposals put to shareholders. Further information on voting practices is in the proxy voting section of this report.
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.
	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: Responsible Investment Policy, Stewardship Policy, ESG Policy • We have also published fact sheets to support clearer communication on our processes for certain issues. These include climate change, modern slavery, and our approach to the SDG analysis.

Our approach to ESG

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.

ESG is a shared responsibility



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.

Supporting disclosures: ESG policy

Stewardship

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 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.

The four components of our approach to stewardship

- Company engagement
- Proxy voting
- Research and thought leadership
- Collaborative engagment

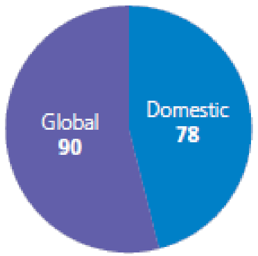
We are disciplined in our approach and generally only actively engage when there is a specific issue to address. Our approach to engagement is concentrated on specific issues when:

- Engagement results can inform our view on company specific ESG risks
- A specific risk or opportunity has been identified and we believe engagement will support a business improvement
- Engagement can inform thematic assessments or broader research

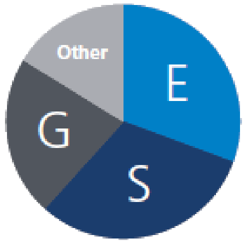
*This does not include general investment meetings held throughout the year, for example during reporting season, where the primary focus is on financial performance, although material ESG matters are frequently raised in these meetings.

In FY22, we held 168 dedicated* ESG meetings with 138 companies

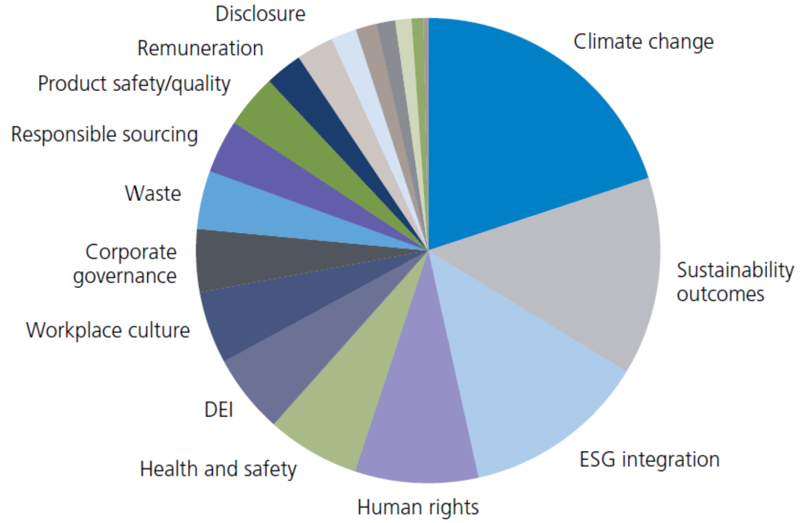
Number of engagements



Discussion of E, S and G topics



FY22 common engagement topics



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%
DEI	Participation of underrepresented groups (gender, ethnicity), diversity of senior management, workplace culture and broader inclusion	24%	17%

Supporting disclosures: Stewardship Policy

Sustainable investing

Our sustainable funds seek to invest in companies that we assess as having a **net positive contribution to the United Nation's Sustainable Development Goals.** With a growing demand for responsible investment products, our commitment is to offer sustainable funds to the market that are **uniquely underpinned by a rigorous and transparent approach to sustainability**.

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

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 make towards achieving each of the SDGs, to arrive at a net score.

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.

Supporting disclosures: Sustainable Investing fact sheet

FY22 SDG characteristics

Strongest alignment

3 GOOD HEALTH AND WELL-BEING

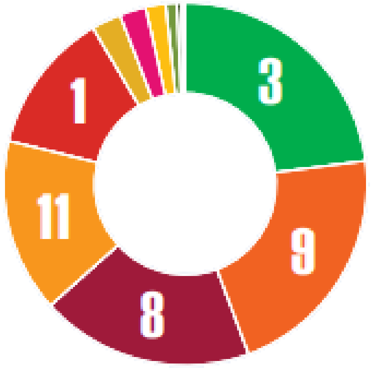
8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

11 SUSTAINABLE CITIES AND COMMUNITIES

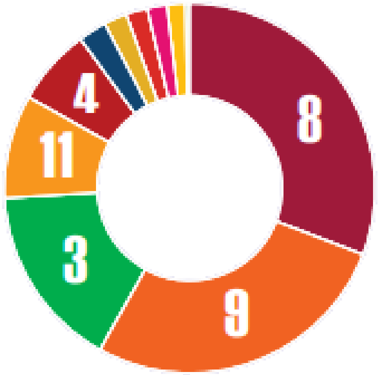
Alignment to the top four SDGs is the same across the domestic and global sustainable funds. The domestic fund exhibits stronger contribution to SDG3 while the global fund shows stronger alignment to SDG8.

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 alignment to **SDG1** is representative of relatively high portfolio tilt to the financials sector, that includes commercial banks and insurers.
- 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, Qantas Airways and the Commonwealth Bank of Australia).

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 financial services and insurance.
- Across the global holdings there is slightly lower contribution to **SDG3** compared to domestic, reflecting limited health insurance companies held through the year. Global pharmaceutical companies such as Eli Lilly and Merck provide critical medication that address cancer and other diseases.
- 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.

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.

Steps to address more challenging topics

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

Case Study | 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.

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.

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.

Constructing a sustainable universe

Examples of FY22 holdings

8 Decent work and economic growth; 9 Industry, innovation and infrastructure; 11 Sustainable cities and communities	**Onsemi** Driving technology breakthroughs and electrification that deliver on the promise of a sustainable future
1 No poverty; 8 Decent work and economic growth; 10 Reduced inequalities	**MercadoLibre** Democratising consumption and financing in Latin America
1 No poverty; 8 Decent work and economic growth; 10 Reduced inequalities	**DBS Bank** Singapore's leading consumer bank, financing growth since 1968
3 Good health and well-being; 9 Industry, innovation and infrastructure	**Agilent** Delivering insight and innovation that advance quality of life
7 Affordable and clean energy; 9 Industry, innovation and infrastructure; 13 Climate action	**Vestas Wind** Bringing sustainable energy solutions to power a bright future
7 Affordable and clean energy; 9 Industry, innovation and infrastructure; 12 Responsible consumption and production	**Waste Connections** Circular economy solutions for community, with green energy opportunities
7 Affordable and clean energy; 9 Industry, innovation and infrastructure; 13 Climate action	**Schneider Electric** Digital products that support new energy systems

Climate change

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. Further information can be found in our Climate Change Statement.

The five pillars that guide our risk evaluation

Exclusion criteria	Carbon footprints	Portfolio/ company assessments	Company engagement	Investment case considerations
We exclude thermal coal producers from all portfolios	We measure the carbon intensity and absolute carbon footprints of our portfolios	We use the CA100+ indicators to assess company specific performance	We participate in collaborative engagements (eg CA100+)	We invest in companies supporting the low carbon transition
For our sustainable funds we exclude all fossil fuel producers	We report regularly to our clients on portfolio emissions	We complete portfolio wide assessments on climate risk and opportunity to compare and benchmark	We encourage companies through engagement to reduce their emissions footprints and set clear targets	We consider climate change factors in our investment case considerations when relevant

Carbon metrics across FY22 holdings

We recognise the value in understanding the scope and quality of carbon commitments. 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.

Climate metrics *All FY22 holdings*

DOMESTIC — Of 71 companies:
- 58% net zero and
- 54% interim targets
- 10% carbon pledge
- 70% TCFD

GLOBAL — Of 72 companies:
- 60% net zero and
- 64% interim targets
- 11% carbon pledge
- 79% TCFD

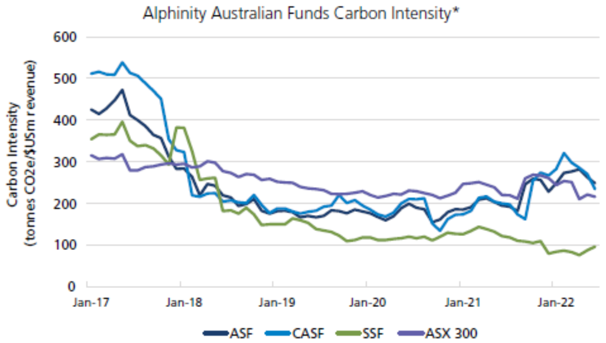
Carbon exposure metrics *Portfolio as at 30 June 2022*

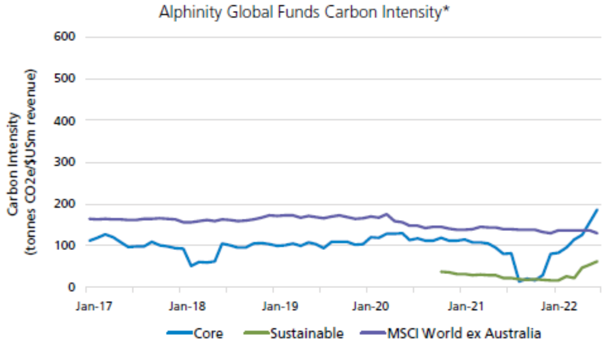
	Weighted average carbon intensity*	Carbon footprint**
Australian Share Fund (ASF)	274.6	106.2
Concentrated Australian Share Fund (CASF)	268.4	103.8
Sustainable Share Fund (SSF)	99.2	51.4
Combined	243.7	96.3

	Weighted average carbon intensity*	Carbon footprint**
Global Equity Share Fund (GEF)	186.2	28.1
Global Sustainable Equity Share Fund (GSEF)	62.1	14
Combined	186.3	26.8

Carbon footprints of our funds

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, all of which we have engaged with.





* Weighted average carbon intensity: tonnes CO2e/$USm/.
**Carbon footprint: tonnes CO2e/$AUDm invested.

Supporting disclosures: Climate Change Statement

Climate-related outcomes

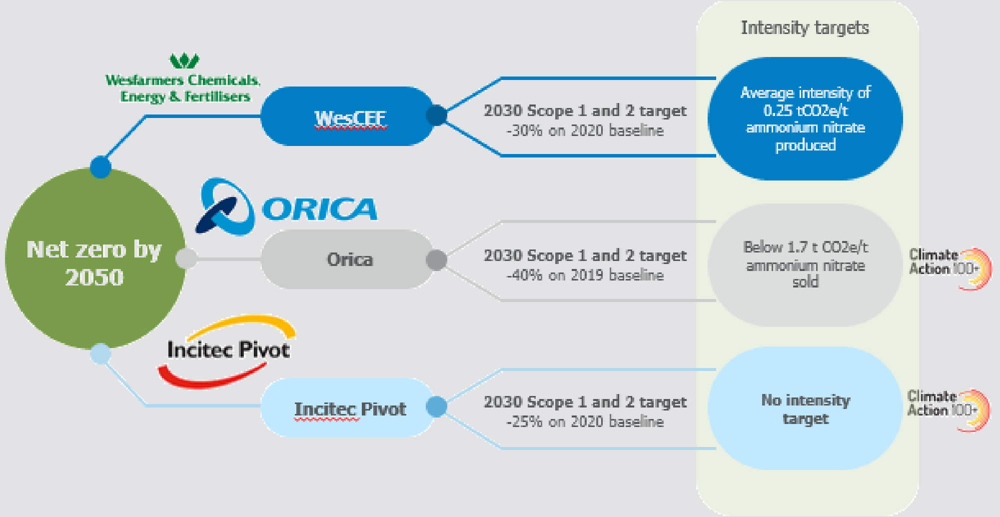
We recognise that our engagement with companies may not necessarily have driven the positive outcomes seen through the year. Regardless, we believe that we have an influential role to encouraging changes in all the companies we engage with, to better manage ESG risks but also realise potential opportunities.

BlueScope Steel	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. 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). 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. 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.
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. 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. 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. 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.

Case study | Stewardship: Climate action in 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.

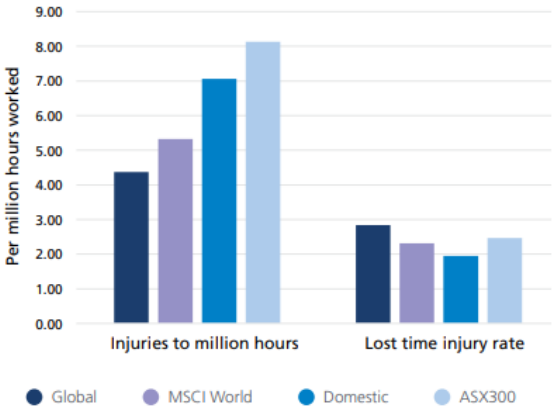
Through the year we were pleased to see Incitec Pivot, Orica and Wesfarmers strengthen their climate strategies. In this case, the progress we have seen in all three companies' climate strategies has demonstrated the value of collective initiatives such as the Climate Action 100+.



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. Depending on the company, the specific risks and opportunities within workforce varies. We assess the most relevant issue consistent with our ESG materiality process.

FY22 health and safety metrics*



- Injury rates were lower than the benchmark for both global and domestic portfolios
- Less than 50% of benchmark companies generally disclose health and safety metrics
- 80% of global companies and 45% of domestic companies had an injury rate of less than 5
- 12% of global and 26% of domestic companies had an injury rate of more than 10

*Source: Refinitiv Workspace

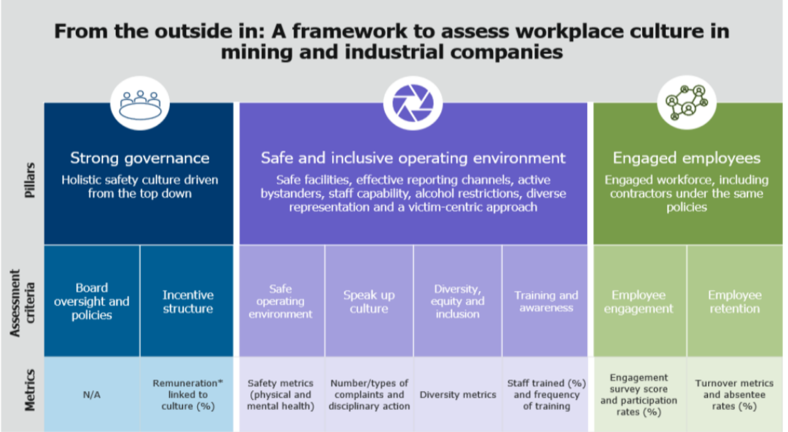
Health and safety management

Domestic	Engagement
CLEANAWAY	Meeting with newly appointed CEO to discuss priority areas within the business including environmental management, culture, and health and safety.
SOUTH32	Meeting with management to discuss workplace culture and safety, with a 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, among other metrics.
Global	**Engagement**
KEYSIGHT TECHNOLOGIES	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 | Workplace culture, sexual harassment and bullying in the mining industry

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.

The outcomes of the workplace culture analysis will be embedded within our ESG assessment processes and used to inform future engagements and track process.



Modern slavery and human rights

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 also an important ESG topic that is discussed in many company engagements.

High level engagement objectives

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

Supporting disclosures: Modern Slavery fact sheet

Managing modern slavery risk in our investments

FY21: Introduced risk assessment framework

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

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

FY22: Enhanced framework with management indicators for supply chain

In FY22: We enhanced our 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. Among the management indicators considered are the following:

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

FY22 modern slavery metrics

Number of companies analysed	143
Companies with a modern slavery statement in place	87%
Companies reporting on critical breaches	57%
Companies with a high risk in at least one risk category	31%

Cybersecurity, data and ethics

Our approach

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 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 an 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 thematic 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 | Responsible and sustainable artificial intelligence

Artificial intelligence (AI) 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 practice 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 companies.

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.

Biodiversity

Our approach

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.

Biodiversity-related engagement and research

At a company level, we engage to determine its current approach to managing biodiversity risks and opportunities, and to establish best practice in this critical space. We see this as an emerging area of focus going into FY23.

Common questions we ask management and sustainability specialists:

- *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?*

Case study | Thematic research: Sustainability of fertilisers

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 (nitrogen, phosphate, potassium). After completing this preliminary research, we assessed the SDG alignment for three fertiliser companies and discussed our findings with the Sustainable Compliance Committee.

Case study | Stewardship: Collaborative engagement on AMR

This year we signed on to a collaborative initiative with FAIRR to explore antimicrobial resistance risks in pharmaceutical companies. As shareholders of Zoetis, we sought engagement with the company and clarified that:

- Antibiotics are no longer core business
- Zoetis is taking an active role in advanced medication such as vaccines and injectable antibiotics used for treating disease, to reduce broader antibiotic use.
- The company is a strong proponent of veterinary oversight the responsible application of antibiotics.

Diversity, equity and inclusion

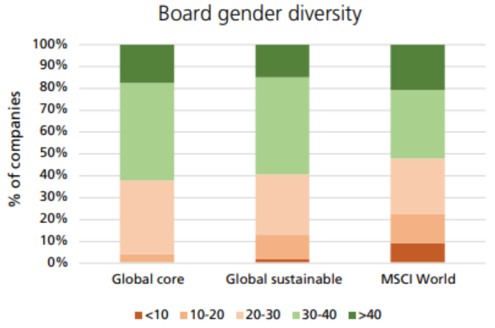
Our approach

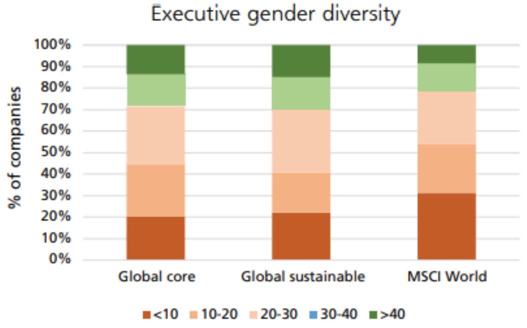
We believe that an inclusive, meritocratic workplace, with equality of opportunity, is an important factor in creating effective work environments, diversity of thought and strong decision making. From a risk management perspective, all types of diversity (gender, ethnicity, age, LBTIQ+ and other) can 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 assessment tool.

FY22 highlights

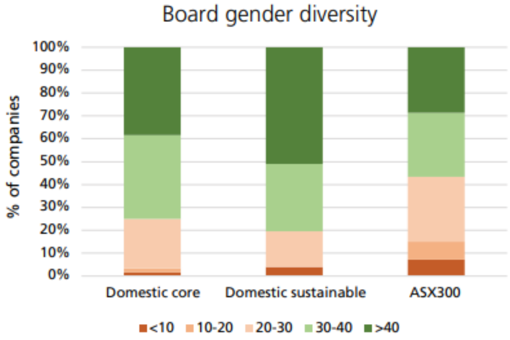
- Our funds have a higher proportion of companies with good gender diversity (>30% female representation) on their boards and executive teams than the benchmark
- An average of 20% ESG-focused company engagements included discussions on DEI
- Within our assessment of gender diversity, we seek data across 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 incorporates specific metrics and indicators related to diversity and inclusion.

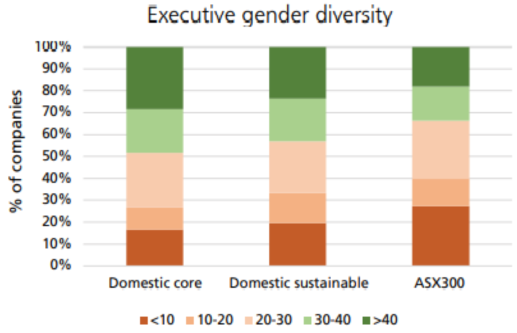
Global funds: ~60% of holdings in our global core and global sustainable funds have more than 30% female representation on their boards. Executive gender diversity is generally lower, although the average of our global funds is still higher than the benchmark.





Domestic funds: Over 70% of our holdings in the domestic core and sustainable funds have more than 30% female representation on their boards. Executive gender diversity is generally lower, although the average of our domestic funds is still higher than the benchmark.





Company Examples

virtus HEALTH	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	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	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 to increase efficiencies in the labour market and promote 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.

Australian sustainable case studies

Sustainable cities

Sims Metal: Reducing waste with circular economy solutions

+	9 Industry, innovation and infrastructure; 11 Sustainable cities and communities; 12 Responsible consumption and production
-	

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" and drives the company to operate in a state of constant innovation and development within the circular economy to support consumers, businesses, governments and communities around the world (**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 and an active contributor to the circular economy program. 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.

Inclusive economies

Judo Capital: Transforming banking for Australia's SMEs

+	8 Decent work and economic growth; 10 Reduced inequalities
-	

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.

Climate action

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

+	6 Clean water and sanitation; 9 Industry, innovation and infrastructure; 11 Sustainable cities and communities
-	

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**, **SDG9**). 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.

Healthy lives

CSL: Developing medicines that saves lives to vaccines that improve them

+	3 Good health and well-being
-	12 Responsible consumption and production

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.

Global sustainable case studies

Sustainable cities

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

+	8 Decent work and economic growth; 9 Industry, innovation and infrastructure; 11 Sustainable cities and communities
-	6 Clean water and sanitation

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 their water consumption and recycling more water. In FY21, it achieved a 4.9% reduced water withdrawal compared to previous year, clearly illustrating that efforts are made in this area.

Inclusive economies

MercadoLibre: Democratising consumption and financing in Latin America

+	1 No poverty; 8 Decent work and economic growth; 10 Reduced inequalities
-	12 Responsible consumption and production

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 (**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.

Climate action

Schneider Electric: Digital products that support new energy systems

+	7 Affordable and clean energy; 9 Industry, innovation and infrastructure; 13 Climate action
-	

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 Southeast 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 has 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 its customers save and avoid 800 millions of tonnes of CO_2 emissions.

Healthy lives

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

+	3 Good health and well-being; 4 Quality education
-	

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.