

Fact sheet: Our approach to sustainable investing

December 2022

Our sustainable funds aim to invest in companies that we believe have a net positive alignment with the United Nations Sustainable Development Goals (SDGs), exceed our minimum ESG criteria, and which are also identified as undervalued and within an earnings upgrade cycle. 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 can play a role to innovate, scale and deliver these solutions.

Features of our sustainable funds

Sustainability

- An investable universe of companies that we assess as having a net positive alignment to one or more of the 17 SDGs

Exclusions

- Hard exclusions defined by a charter for activities that are incongruent with the SDGs (for example, fossil fuels and tobacco). See the relevant Fund Charter for a list of exclusions and revenue thresholds

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

Discipline and talent

- A disciplined and repeatable investment process finding high-quality businesses with strong earnings that are under appreciated by the market
- An established team of global portfolio managers each with significant industry experience

Aligned

- Alphinity is a boutique firm, strongly aligned with its clients' investment objectives and focused on growing clients' wealth over the long term

Each strategy has a Fund Charter in place which outlines the investment parameters of the fund, including a set of excluded activities and revenue thresholds. Both strategies have a Sustainable Compliance Committee in place to oversee governance, sustainable universe construction, and help inform company engagement. The committees include two external highly reputable independent experts and ensure the Funds stay true to their Charters.

Ultimately, stock selection for inclusion in the portfolio is made from the defined sustainable universe by the investment team applying the Alphinity investment process.

Defining sustainability using the Sustainable Development Goals

We use the SDGs as a framework for assessing a company's suitability for our domestic and global sustainable universes. The 17 SDGs have a universal application and aim to mobilise efforts to end all forms of poverty, improve health and education, reduce inequality, and spur innovation and economic growth, while managing climate change and working to preserve oceans and forests.

These goals were primarily developed for use by government, not-for-profit organisations, and industry bodies. However, given the holistic nature of the SDGs, we believe that they are a suitable framework to define sustainability in the context of investing.

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

We will continue to monitor any new regulatory standards that define 'sustainable' activities, such as the EU Taxonomy and the International Sustainability Standards Board. Although these remain in their infancy, we are aware that global sustainability standards are evolving and, where appropriate, will aim to integrate any relevant new developments into our sustainability considerations.

Methodology: SDG Analysis

1. Excluded activities

There are a number of activities we have determined to be incongruent with the SDGs, such as fossil fuel production, fossil fuel energy generation, alcohol and tobacco production and gambling. Companies exposed to these activities are subject to various materiality thresholds and, are excluded during universe construction. A full list can be viewed in the Funds' Charters [here](#).

For activities that have an indirect link to any excluded activities, such as fossil fuel transport or alcohol sales, a specialised research framework guides the judgement of a company's suitability for the fund. For a company to be approved it must meet all inclusion requirements of the framework, as determined by the Sustainable Compliance Committee.

2. SDG analysis

Alignment to the SDGs is measured using an in-house methodology which quantitatively aligns company revenues with relevant SDGs to arrive at a net score for each company. The net score includes the positive and negative alignment to the relevant SDGs for each segment of company revenues. Net positive alignment is the measure of a company's contribution to the SDGs. This is calculated using an in-house methodology as described below.

We align company revenues to the 169 targets that underpin the 17 SDGs as this provides greater insight and clarity to the intent of the goals, and therefore requires less interpretation. To reflect the strength of each segment's alignment with the various goals, we apply a materiality factor to the respective revenue stream.

Our SDG analysis is completed using company disclosures (financial and ESG documents), insights gained through company engagement and independent research. To maintain consistency in this analysis we have developed sector assumptions to guide the SDG alignment process. Judgement is applied on a case-by-case basis because each company is unique and alignment in the same sector can vary.

This analysis is reviewed and approved by the Sustainable Compliance Committee for each individual stock. The SDG data is also reviewed in aggregate by a nominated member of the committee twice a year to ensure consistency across the analysis and update any assumptions where necessary.

Responsibility: The SDG analysis is completed by the internal ESG and Sustainability team in consultation with the respective investment analyst. The relevant Sustainable Compliance Committee maintains oversight of the SDG analysis and approves companies for inclusion in the sustainable universes. In FY22 we received limited assurance by KPMG over our SDG alignment framework and the SDG data published in the FY22 ESG and Sustainability Report.

Update and review: Revenue data is updated at least annually, or when there is a material change (for example, as a result of mergers, acquisitions or divestment).

3. Minimum ESG criteria

A company's ESG criteria 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.

This assessment is undertaken for any stock actively being considered for investment, as well as on an ongoing basis for all stocks in the Fund. This assessment is made by the investment team, with support from internal ESG specialists.

The outcome of this assessment is an overall ESG risk level. Any stock that is assessed at the highest risk level of 'avoid' has not met Alphinity's minimum ESG criteria and consequently is not considered for inclusion into the Fund.

These are situations where overall ESG risks are viewed by Alphinity as material and having a high probability of significantly impacting company financial performance over the short to medium term. Such circumstances are commonly associated with exposure to a high-profile controversy, a historic pattern of controversies, or serious governance concerns. This is a qualitative judgement made by Alphinity after consideration of all material risks and opportunities using the ESG assessment framework, as well as the extent to which these risks have been adequately mitigated or controlled by management actions.

4. Approval from the relevant Sustainable Compliance Committee

The two Sustainable Compliance Committees are responsible for overseeing the SDG and ESG company analysis, and approving the domestic and global sustainable universes. Both committees include two Portfolio Managers and the same two external experts (see page 4).

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

The Committees are supported by the ESG and Sustainability team, who chair the committee meetings and provide research and inputs to assist the committee in their discussions.

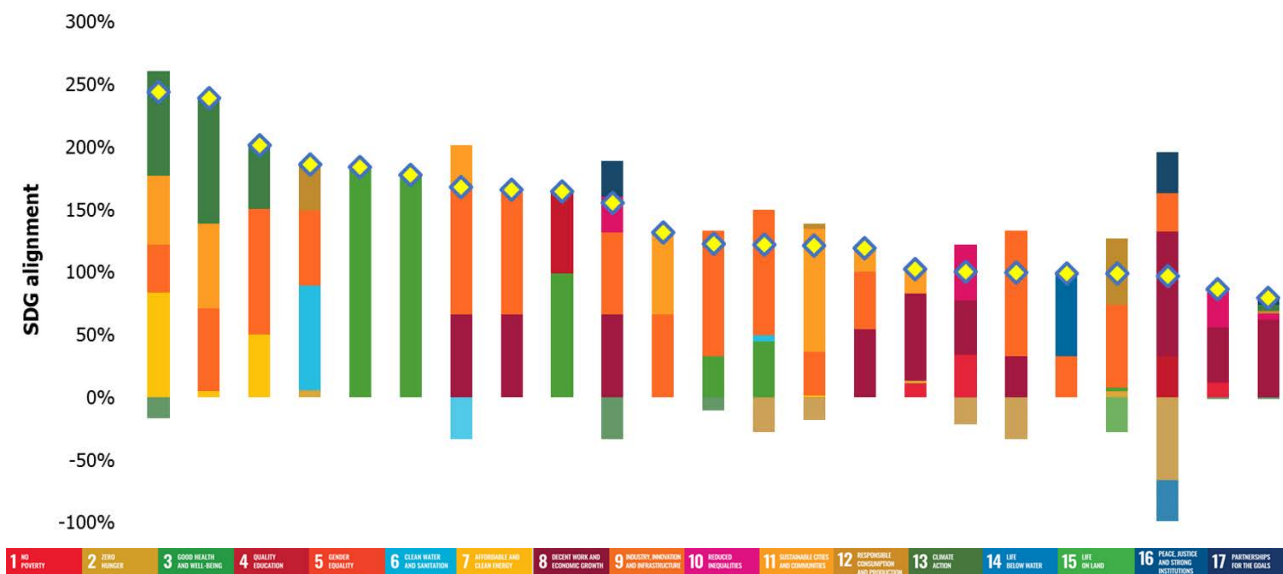
5. Construct a balanced Alphinity portfolio

Once companies have been approved by the respective Sustainable Compliance Committee for universe inclusion, we apply the same disciplined investment philosophy of all other Alphinity funds: looking for companies with earnings leadership. All companies in the portfolios will have a net positive SDG alignment and strong ESG practices.

Worked example: SDG analysis of a mining company

FY22 revenue %		SDG alignment							
		SDG	SDG target	Materiality	Score	Result	Comment		
Company segments	Copper	+	7 AFFORDABLE AND CLEAN ENERGY	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 INDUSTRY, INNOVATION AND INFRASTRUCTURE	9.1 Develop quality, reliable, sustainable and resilient infrastructure	High	20% x 100% = 20%			
			11 SUSTAINABLE CITIES AND COMMUNITIES	11.3 Enhance inclusive and sustainable urbanization	Medium	20% x 66% = 13%			
	Nickle	+	7 AFFORDABLE AND CLEAN ENERGY	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 INDUSTRY, INNOVATION AND INFRASTRUCTURE	9.1 Develop quality, reliable, sustainable and resilient infrastructure	High	75% x 100% = 75%			
	Lithium	+	7 AFFORDABLE AND CLEAN ENERGY	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 INDUSTRY, INNOVATION AND INFRASTRUCTURE	9.1 Develop quality, reliable, sustainable and resilient infrastructure	Medium	5% x 66% = 3%			
	All	-	13 CLIMATE ACTION	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 CLEAN WATER AND SANITATION	6.4 Increase water-use efficiency across all sectors	Low	100% x -33% = -33%			
						Net positive SDG Score:	40% + 100% + 8% - 66% = 82%		

Example portfolio: All portfolio companies have a net positive SDG score



Sustainable Compliance Committee

Australian Sustainable Share Fund Compliance Committee

Australian Portfolio Managers



Bruce Smith
Principal, Portfolio Manager



Stephane Andre
Principal, Portfolio Manager

Global Sustainable Equity Fund Compliance Committee

Independent experts



Elaine Prior
ESG expert



Melissa Stewart
Human rights expert

Global Portfolio Managers



Mary Manning
Global Portfolio Manager



Jeff Thomson
Global Portfolio Manager

Supported by the ESG and Sustainability team

Alphinity ESG and Sustainability team

Jessica and Moana support the committees by providing research, structuring agendas, and tracking actions and outcomes.



Jessica Cairns
ESG & Sustainability Manager



Moana Nottage
ESG & Sustainability Analyst



Elaine Prior, ESG expert

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

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

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



Melissa Stewart, Human rights expert

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

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

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

Disclaimer

This material has been prepared by Alphinity Investment Management (ABN 12 140 833 709 AFSL 356895) (Alphinity), the investment manager of the Alphinity Australian Share Fund, Alphinity Concentrated Australian Share Fund, Alphinity Sustainable Share Fund, Alphinity Global Equity Fund and Alphinity Global Sustainable Equity Fund (Funds).

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