

PILLAR 1

ESG integration



Alphinity seeks to identify and invest in attractively valued, quality companies which we believe are in, or are about to enter, an earnings upgrade cycle. Integrating environmental, social and governance (ESG) considerations into investment decisions is the responsibility of the portfolio management team with the support of the ESG team. It is viewed as a key component of fundamental investment analysis.

ESG issues can have an immediate and long-term material impact on company performance, can disrupt business operations and can increase operating costs. However, they can also increase efficiency, create new product opportunities and support a company's social licence to operate. By deepening our understanding of how individual companies manage ESG issues, we aim to more effectively

identify the related risks and opportunities, enhancing our ability to achieve our objective of delivering above-average, long-term sustainable returns.

Our investment approach incorporates five methods for integrating ESG considerations into investment decisions. The method used depends on the materiality of the identified ESG issue and the overall risk to the portfolio.

| | Integration approach | Description |
|--|-----------------------------|--|
| Less immediate or limited potential impact | Monitor | ESG risks that are long-term, highly uncertain, or not immediately material are monitored by both the portfolio management and ESG teams. |
| | Engagement | Company engagement informs our view on ESG risks and is used as a strategy to manage ESG risks over time. Where a risk does not warrant financial modelling or a change in the portfolio, an engagement objective may be set to achieve better reporting, management practices or outcomes over the immediate or longer term. |
| | Financial modelling | Where an ESG issue is quantifiable, with a direct identifiable financial impact, it can be integrated into financial models to measure the impact to the investment case. We may also test the potential impact of ESG issues with longer time horizons, or less certain financial outcomes, through sensitivity analysis or scenario modelling. |
| | Portfolio management | The investment team may adjust the size of a portfolio position (positive or negative) to manage a material ESG issue. This could be in response to an individual ESG event or issue, or may be due to the overall ESG risk level and fundamental ESG view of the analyst. |
| ESG issue materially impacts the investment case in the immediate or short-term | Divestment | Divestment is generally the last resort. We might divest from a company if the ESG risks are perceived to be material enough to undermine the investment case. Typically, this may be related to a significant controversy, governance concerns or a change in operating conditions. |

ESG Framework

Material ESG risks and opportunities are assessed using an in-house methodology and process. This is made up of three main components: Thematic frameworks, ESG materiality and risk levels, and ongoing risk management. There is close collaboration between the ESG and portfolio management teams to implement the ESG Framework. These activities are supported by stewardship activities that span engagement, proxy voting, research and external reporting.

Assessments under the ESG Framework are completed as part of pre-investment due diligence and on an ongoing basis for existing holdings. We document the outcomes of our analysis using a standard company ESG review template, in internal thematic research reports, and as part of a live risk register. For companies in our sustainable strategies,

the review report also includes information on the SDG analysis and SDG score (see page 33 for more information).

We utilise a materiality approach to analyse the balance of ESG factors for a particular company and determine the best path forward. When completing this assessment we include issues across the short, medium and long term and those that potentially create impact at a systemic, industry and company level.

To ensure that all material and relevant ESG issues are considered, Alphinity seeks to access multiple sources of ESG information, with a preference wherever possible for first-hand insights obtained by the portfolio management and ESG teams from direct company engagement, industry experts or other third parties.

Alphinity ESG Framework



Inputs:

The main inputs consist of ESG data, company disclosures and industry reports. The portfolio management and ESG team also generate insights from direct company engagement and other third-party sources such as experts and ESG data providers.

Step 1

Thematic frameworks:

Thematic frameworks are an input into our materiality assessment and cover topics such as climate change, modern slavery, workplace culture and responsible AI. These frameworks also help us to complete benchmarking assessments and collect specific data points relevant to different topics.

Step 2

ESG materiality and risk level:

Our ESG materiality assessment covers over 40 material E, S and G factors that lead to a risk level for each company: 1 (low), 2 (medium), 3 (high) or 4 (avoid). Material issues are converted into risk statements and integrated into a risk register. The determination on material issues, risk statements, and the overall risk level is made collaboratively between the portfolio management and ESG teams. Any company that is assessed at the highest risk level of 'avoid' has not met our minimum ESG risk criteria and will not be considered for investment (or will be divested if it is an existing holding).

The materiality assessment is also used to identify trends in topics across portfolios, consider additional analysis that may be needed to develop thematic frameworks, and to identify priority ESG engagements or research projects.

Step 3

Risk management:

Material risks are integrated into a risk register which is managed on an ongoing basis. Depending on the risk, the management strategy may include financial modelling, portfolio management decisions such as limiting position size, or engagement and stewardship activities. These risks are reviewed for portfolio companies at least twice annually to ensure that material changes are captured and actioned.

Outputs:

The primary outputs from this process are:

- ESG risk level for all companies in our portfolios along with risk statements which are managed through a live risk register.
- ESG review reports which document thematic, ESG materiality, management, and risk statements at a point in time. These review reports are a record of reviews completed pre-investment and incrementally for long-standing portfolio positions. We may also complete reviews for companies in the wider fund universes as directed by the Portfolio Management team.
- Investment considerations and integration actions for fundamental analysts (where relevant).
- Engagement objectives and priority ESG issues for further research, engagement or monitoring.

An illustration of the overall process is presented below.

More information on our approach to ESG integration can be found in our [ESG Policy](#). Examples of ESG integration are also provided in this section.

2024 enhancements to our ESG Framework

In 2021 we introduced an ESG materiality tool to support the consistent identification and analysis of ESG aspects for companies across our investment universes. In 2022 we enhanced this framework by assigning an internal ESG risk level. In 2023 and 2024 we have integrated thematic frameworks and have enhanced the scoring methodology by introducing a management score. The graphic below presents an overall picture of our ESG Framework.

Data

We onboarded the Bloomberg ESG data discovery function as an enhanced input into our company ESG risk materiality assessment process. This has also been valuable in benchmarking ESG data points of our portfolios relative to the index. Key tools utilised include:

- The 'Good Governance' assessment that examines management structure, employee relations, remuneration and tax compliance, enhancing our understanding of company-level corporate governance performance.
- Climate disclosure and management data, which includes company-level net zero ambitions, science-based interim targets, emissions reporting, green revenues and TCFD alignment.
- Physical climate risk metrics such as the proportion of company assets with high exposure to water stressed regions or proximity to ecologically sensitive locations. This has enhanced our assessment of nature dependencies and impacts for mining companies.

Thematic frameworks

- Finalised and published a Responsible AI Framework with the CSIRO. We integrated components of this framework into our own analysis. See case study on page 22.
- Finalised a Sustainable Banks Framework to better analyse the overall sustainability and ESG risk profile of large retail and investment banks. This framework has been integrated into our analysis. See case study on page 17.
- Developed and finalised a Net Zero Alignment Framework to measure the proportion of companies aligned with net zero by 2050. This framework is now part of our climate risk assessment process, which also measures various portfolio carbon metrics. See the climate change thematic section on page 42 for further details.
- Initiated a project to expand our Workplace Culture Framework (published in 2022) to cover other sectors beyond mining, such as consumer retail and investment banks. See the workforce thematic section on page 57 for further details.

Materiality assessment

- We expanded the number of ESG topics to more than 40 (from 25 in 2023) to capture the nuance between various issues. For example, in 2023 we assessed two climate change topics: transition and physical risk. In 2024, this was updated to include three topics: emissions footprint, energy transition, and physical climate risk. Similarly, in 2023 data privacy and cyber security were assessed as one topic. In 2024 this was separated so each risk is assessed individually.
- We enhanced our scoring assessment to assign a materiality score of 1 to 5, with 1 representing a high opportunity and 5 representing a high threat. We now also assign a management score from 1 to 3, with 1 representing lagging management practices for the specific ESG issue and 3 representing leading management practices for the same issue. We use data inputs, information from company reporting, analyst knowledge and insights from engagement and bespoke frameworks (e.g. Responsible AI) to complete these assessments.

The graphic on the following page illustrates the application of the materiality and management scores, and conversion into risk statements on a matrix.

ESG Framework illustration

This illustration demonstrates the application of the ESG Framework. It outlines materiality and management assessments, risk statements and the overall risk level for a mining company and a consumer company, as examples.

Inputs: Thematic frameworks, company engagement, industry reports, data providers

Materiality Assessment: 40+ ESG topics assessed to identify company-level material issues

| | | | Supermarket | | Miner | |
|-------------|---------------------------------|--|---|------------|-------------|------------|
| | | | Materiality | Management | Materiality | Management |
| Thematic | Example topics | | Sample of material ESG topics and management scores (example company) | | | |
| Environment | Climate change | Physical climate change Energy transition Emissions footprint | | | | |
| | Nature | Biodiversity Deforestation Water use Circular economy | | | | |
| Social | Workforce | Workplace culture Psychosocial safety Physical safety | | | | |
| | First Nations | Heritage management Indigenous engagement | | | | |
| | Modern slavery and human rights | Operations Supply chain Products and services | | | | |
| | Social licence | Customer experience Community relations Product quality and safety | | | | |
| | Digital technology | Cyber crime Data privacy Responsible AI | | | | |
| | Corporate governance | Board effectiveness Shareholder alignment Remuneration Corruption and bribery | | | | |

| Analysis | |
|--|------------------|
| Company specific analysis of issue materiality and management. | |
| Materiality | |
| 1 | High opportunity |
| 2 | Opportunity |
| 3 | Relevant |
| 4 | Threat |
| 5 | High threat |
| Management | |
| 1 | Lagging |
| 2 | Average |
| 3 | Leading |

| | | Supermarket | | Miner | |
|-----------------------------|--|-------------|------------|-------------|------------|
| | | Materiality | Management | Materiality | Management |
| Physical climate change | | 4 | 1 | 5 | 2 |
| Emissions footprint | | 2 | 3 | 4 | 1 |
| Energy transition | | | | 1 | 2 |
| Biodiversity | | 4 | 1 | 5 | 3 |
| Deforestation | | 4 | 2 | 3 | 3 |
| Pollution | | | | 4 | 3 |
| Water use | | | | 2 | 1 |
| Psychosocial safety | | 4 | 2 | 5 | 2 |
| Physical safety | | 4 | 3 | 5 | 3 |
| Heritage management | | | | 4 | 3 |
| Modern slavery supply chain | | 4 | 1 | 3 | 2 |
| Modern slavery operations | | 3 | 1 | | |
| Customer experience | | 1 | 3 | | |
| Health and nutrition | | 1 | 3 | | |
| Access and affordability | | 5 | 2 | | |
| Cyber crime | | 4 | 2 | 3 | 1 |
| Data breach | | 4 | 3 | | |
| Responsible AI | | 3 | 1 | | |
| Board effectiveness | | 4 | 3 | 4 | 2 |
| Corruption and bribery | | | | 5 | 2 |

Risk Assessment: Converting shortlist of material issues into risk statements and overall risk level

Example supermarket: Level 2 risk (Medium)

| | | Likelihood | | |
|-------------|---|---|--------------------------|---------------------------------|
| | | L | M | H |
| Consequence | L | | | Weather impacts on supply chain |
| | M | Serious injuries | Data breach (membership) | Pricing inquiry / reform |
| | H | Supply chain (Modern slavery Deforestation) | Cyber attack | |

Example miner: Level 3 risk (High)

| | | Likelihood | | |
|-------------|---|-----------------|---|------------------------|
| | | L | M | H |
| Consequence | L | | | Union action |
| | M | Cyber attack | Psychosocial safety incidents Heritage impact Environmental fines | Energy and water costs |
| | H | E/S catastrophe | Permitting delays (E&S) Fatalities | |

Outputs: Risk management includes integration into investment decisions, engagement and further research

ESG integration examples

How ESG considerations are integrated into the investment process varies depending on the individual sector and company circumstance, the relative exposure in our strategies, and the materiality of the ESG topic. The portfolio management team is responsible for determining the best integration approach for a specific issue, or set of issues, with support from the ESG team.

ESG issues can be integrated through portfolio management decisions, financial modelling and adjustments to valuations, engagement and stewardship, active monitoring, or divestment.

We outline examples of how we have integrated ESG throughout the year below. More examples can be found in the thematic sections of this report.

| Company, Event | What Happened? | What Did We Do? |
|--|---|---|
| South32 Worsley bauxite mine expansion | US\$554 million impairment expense due to additional environmental conditions | Engaged with the company, decreased position size in portfolios until we received confirmation of the appeals process |
| Super Retail Group Misconduct legal case | CEO and former head of human resources accused of having an undisclosed relationship | Engaged with the Chair regarding governance concerns and its response to public allegations and legal action. Subsequent downgrades lead to our divestment in November 2024 |
| Woolworths Multiple controversies | CEO departure following a series of controversies and government inquiries | Engaged with the CEO and Board, divested in 2024 due to ongoing social licence and reputational risks and financial headwinds |
| BHP Group Samarco UK Class action | UK class action related to the 2015 Samarco tailings dam collapse in Brazil | Engaged with the company and legal experts, maintained an increased provision for the Samarco remediation and settlement liabilities above BHP's reported estimates to account for additional costs |
| Schneider Electric Anticompetitive behaviour | Schneider Electric and other OEMs and distributors have been accused of anticompetitive behaviour in the French electrical market | Quantitative assessment to test the potential implications by running earnings and cash flow sensitivities for different penalty levels (1-10% of turnover), confirmed minimal impact and maintained position |
| Waste Connections Elevated temperature landfill (ETLF) event | First ETLF at Chiquita Canyon landfill, US\$160 million provision | Decreased position size, visited site, joined community calls, held meetings with executives to monitor the issue and remediation processes |
| Morgan Stanley Money laundering allegations | Allegations related to money laundering in wealth management | Engaged with the company, shared peer disclosures to encourage public policy position |

CASE STUDY

Sustainable banks framework

In 2024 we finalised a bespoke framework to better analyse the overall sustainability and ESG risk profile of large retail and investment banks.

Financial institutions make up a unique industry where ESG and sustainability are interconnected. Large banks can significantly influence global economic health – positively through mobilising capital and offering access to funds, but also negatively where irresponsible banking practices can have widespread negative impacts across regions.

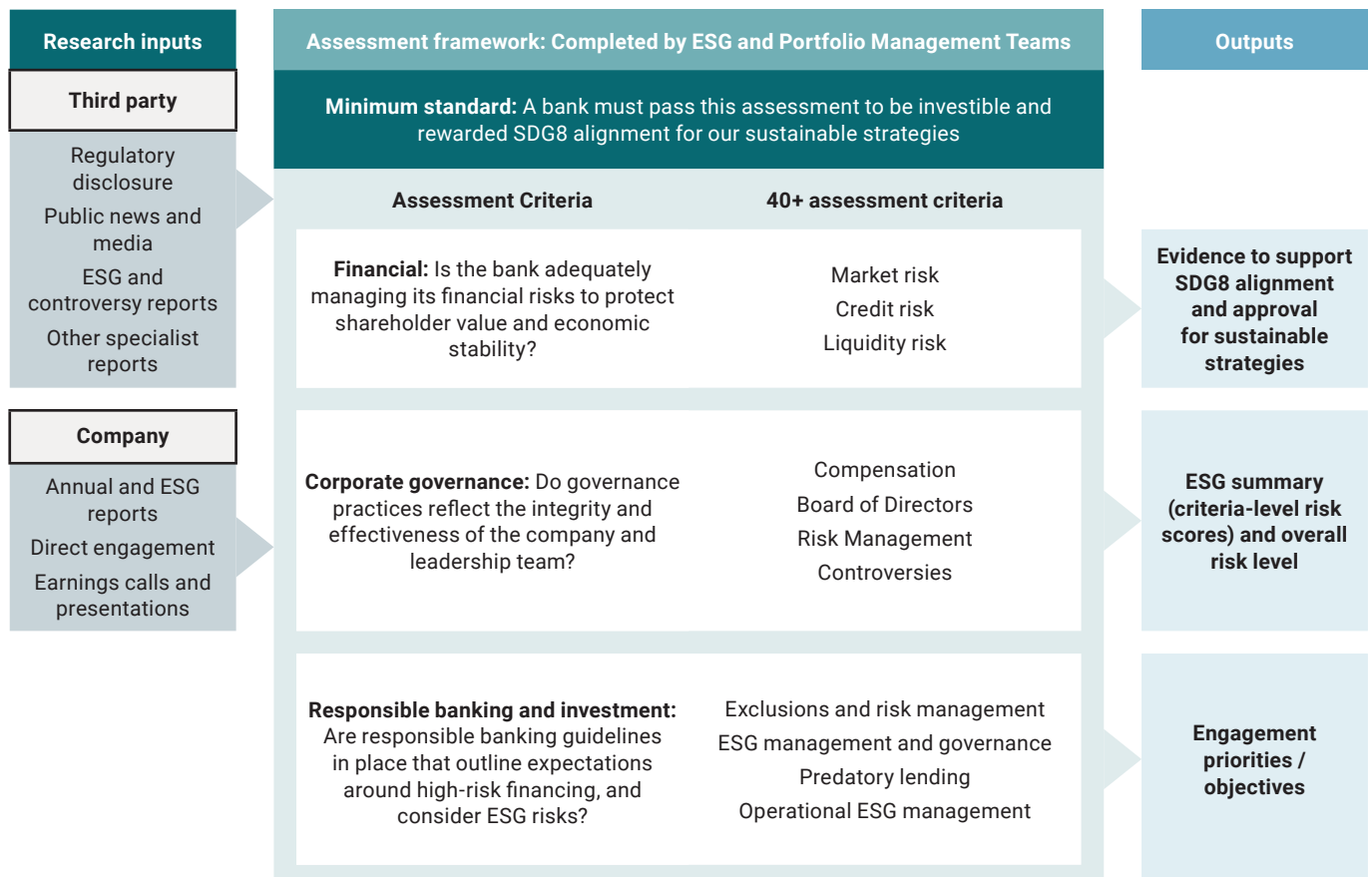
Over the past two years, we have developed a tailored framework to address governance, risk, and cultural concerns in banks. Given the size and complexity of many banks in our investment universe, this framework has helped us to complete more targeted ESG analysis on the most material issues, and supports benchmarking and peer comparisons across different institutions.

We have identified over **40 criteria** to evaluate a bank's risk profile. These criteria include the effectiveness of the board, non-financial incentives in remuneration, clawback mechanisms related to reputation and ethics, risk controls and disclosure of misconduct cases, the severity and frequency of controversies, and the presence of guardrails and due diligence processes for high-risk financing.

The benefits of this framework are that it:

- Provides a structured approach to assessing whether a bank is suitable for our sustainable strategies, and guides discussions with the **Sustainable Compliance Committee**.
- Enables us to gather specific evidence to assign our **ESG risk level** of a bank and subsequent actions such as company engagement.
- Enables **stewardship** activities to be based on our knowledge of best practice and comparative views across different banks, including specific engagement objectives.

In 2024 we used this framework to assess and rank six global financial institutions including Bank of America, which was subsequently added to our global equity strategies.



Research trips to enhance our ESG assessments

UK: Emerging responsible investment themes

Our Senior ESG and Sustainability Analyst attended the Responsible Investor Europe conference once again to gain insights into leading practices in sustainable investing, thematic research and stewardship. The significance of biodiversity as an emerging investment thematic was a strong focus, along with unlocking transition finance to decarbonise the economy. This reinforced our priorities to continue enhancing our nature and climate change frameworks.

Additionally, understanding new regulations like Europe's deforestation and supply chain due diligence laws is valuable for us to better assess regulatory risks and changing stakeholder expectations for portfolio companies.



China: Energy transition

In August 2024, our Senior ESG and Sustainability Analyst joined a tour through China's energy and manufacturing sectors involved company meetings and visits to wind farms, battery production factories, recycling plants and rare earth processing facilities. This built on our understanding of the challenges and opportunities in China's net zero transition and is relevant for the upstream scope 3 emissions risks of portfolio companies.

It also highlighted the human rights, social and environmental risks in the critical mineral supply chain, and prompted us to consider how companies prioritise sustainable procurement in their climate transition action plans. This is an engagement focus in 2025.



Canada and New York: Energy transition, First Nations and banks

In October 2024, our Head of ESG and Sustainability attended the three-day UNPRI annual conference in Toronto. As part of this trip she also went to Calgary, Vancouver and New York where she participated in more than 25 meetings, along with 5 other investors, with companies in the energy, materials, and financial sectors.

The purpose of the trip was to understand the status of the energy transition, deep dive into Carbon Capture and Storage technologies, to benchmark indigenous engagement practices in Canada, and to engage with large banks whilst in New York.

A case study on this trip is on page 52.



Pilbara: First Nations' engagement

In July 2024, our Head of ESG and Sustainability joined a small group of ESG analysts on a research trip to Western Australia where they met with a range of companies in Perth including six listed mining and energy companies such as Fortescue Metals Group and Woodside Energy and five Traditional Owner groups in the Karratha and wider Pilbara region such as the Robe River Kuruma Aboriginal Corporation and the Banjima Native Title Aboriginal Corporation.

A case study on the trip is on page 72.



Singapore and India: Consumer spotlight

In December 2024, our Head of ESG and Sustainability joined a Portfolio Manager and travelled to Singapore and Mumbai to attend the L'Oréal Capital Markets investor tour. In Singapore they met with a number of Singaporean banks before joining L'Oréal for presentations from the SAPMENA Management representatives.

In Mumbai, the investor group heard presentations from Indian management representatives, participated in a number of store visits, a consumer engagement session and a brand activation event at a local college. After the official L'Oréal event, they also attended meetings with Tata Consumer, Hindustan Unilever, a number of local banks, and a local Sustainability Consultancy.

