Nature

Biodiversity | Waste | Deforestation | Pollution | Water | Animal welfare

Thematic overview

In 2024, Alphinity became an early adopter of the Task Force on Nature-related Disclosures (TNFD). We are committed to disclosing in line with the TNFD Recommendations within our next ESG and Sustainability Report, covering the 2025 calendar year.

Nature is a fundamental building block of our economy, providing essential services that businesses rely on to operate. The global deterioration of nature presents both risks and opportunities for companies. These may be realised through impacts to product development and sales, regulatory fines and incentives, supply chains disruption, and changing societal expectations.

The TNFD defines nature as "the natural world, with an emphasis on the diversity of living organisms (including people) and their interactions among themselves and with their environment" across the four realms of nature which are land, ocean, freshwater and atmosphere.

The TNFD also identifies four nature-related issues that need to be identified, assessed, managed and disclosed to the primary users of general financial reports and other stakeholders, including:

1. **Dependencies of the organisation on nature**
2. **Impacts on nature caused, or contributed to, by the organisation**
3. **Risks to the organisation stemming from their dependencies and impacts**
4. **Opportunities for the organisation that benefit nature through positive impact or mitigation of negative impacts on nature**

Within our ESG Framework, nature is assessed through seven core, interlinking elements including climate change (reported as a separate thematic in this report), biodiversity, deforestation, water use, waste, pollution and animal welfare.

For nature-related issues, we consider both dependencies and impacts when assessing the overall materiality of the issue in companies. We also consider potential risks related to nature impacts embedded in the supply chain. In our view, this is one of the most complex considerations when assessing nature. As is the case with human rights, risks can be embedded at any tier along the supply chain and can therefore be difficult for companies to oversee and influence.

In 2023, we initiated a project to develop a nature framework that supports more detailed assessments of the various issues across the nature thematic. The development of this framework continued in 2024 and remains ongoing. The 2023 ESG and Sustainability Report provides an overview of the framework. Research undertaken in 2024 is outlined in this section.

2024 update

Materiality

In 2024, biodiversity, waste, deforestation, water, animal welfare, and pollution have been assessed in the top 30 most material issues across all our holdings. Land use and rehabilitation can be very material at a company level, however, did not identify as material overall.

Between 2023 and 2024, there has been an increase in our assessment of nature-related topics due to growing global focus, asset owner interest, and regulation, all of which can impact the risk characteristics of the theme. For example, the European **Deforestation** Regulation (EUDR) will require companies supplying Europe with certain commodities to have full supply chain transparency. This has elevated the materiality of this issue for companies such as Brambles and Starbucks.

In Australia, the Federal Government also made changes to environmental regulations to strengthen penalties and regulatory oversight. For example, the Nature Positive Bill 2024 amends the Environment Protection and Biodiversity Conservation Act 1999, giving the Environment Protection Australia (EPA) more powers and functions including compliance authority to manage pollution risk.

Biodiversity has continued to increase in materiality since the release of the TFND in 2023. Woolworths and Coles for instance received their first shareholder proposals related to biodiversity impacts in 2024. South32 also experienced a biodiversity-related controversy which impacted its share price performance.

We have also observed an increase in the materiality of **water**, especially regarding companies within the AI value chain (e.g. semiconductor manufacturing) and the mining sector (e.g. Rio Tinto).

We have not noted a change in materiality for **waste**-related issues across holdings, however, it does remain an important topic for many portfolio companies such as waste management companies like Waste Connections and Cleanaway, packaging producers like Amcor and Orora, and consumer companies such as Coca Cola, Procter & Gamble and L'Oreal.

Research

- Completed a nature risk mapping exercise for a shortlist of large mining companies (e.g. Newmont and Rio Tinto) to identify assets with elevated water, biodiversity, and pollution risks.
- Reviewed risks and opportunities linked to water-based tailings waste programs (e.g. riverine tailings, deep sea tailings) to inform our ESG analysis of companies such as Freeport McMoran and Newmont.
- Re-confirmed the animal welfare and animal testing policies for healthcare companies within our portfolios (e.g. Cochlear, CSL).
- Continued our research and engagement on Antimicrobial Resistance (AMR) through our membership with FAIRR.
- Initiated a project to expand our Responsible AI Framework to also cover the AI value chain with a particular focus on water use.

Examples of company engagement

DEFORESTATION

Procter & Gamble has an **ESG risk level** of 2 under our ESG Framework. This requires ongoing regular engagement and active monitoring of key ESG issues. Deforestation was identified as one of the material ESG issues for the company. We **engaged** with Proctor and Gamble twice in 2024. The first was a general update to discuss how the company determines and executes on material ESG issues, animal testing policies, and the management of deforestation risks. The second, in December, was set up to discuss the changing political environment in the US, preparedness for the European Deforestation Regulation, and operations in Russia. No new issues were identified through these engagements; however, we maintained the **ESG risk level** of 2 given the ongoing ESG, regulatory and political risks for the company.

ANTIMICROBIAL RESISTANCE (AMR)

We have been engaging with Zoetis, an animal pharmaceutical company, since 2022 as part of an AMR collaborative engagement with FAIRR. We **engaged** with Zoetis again in 2024 to explore the continued decrease in antibiotic sales, and growth in preventative products such as vaccines and diagnostic tools. We also discussed further **engagement objectives** around enhancing the AMR strategy with time-bound targets and improving transparency around managing water discharge of manufacturing facilities to limit the biodiversity impacts of antibiotic residues entering the natural ecosystem. These have been acknowledged by the company and remain on the engagement agenda in 2025.

WATER

Rio Tinto has **an ESG risk level** of 3 under our ESG Framework and therefore requires active engagement to mitigate immediate and longer-term ESG risks. In 2024 we identified a new risk area related to water impacts, community concerns, and permitting risks. We therefore completed targeted **engagements** with Rio Tinto throughout the year, both individually and through the PRI Advance collaborative engagement, to better understand the management of water risk and the interface with human rights and community concerns. We have subsequently established an **engagement objective** asking that Rio Tinto complete an independent water risk assessment and disclose findings to investors. We will continue our engagement on this issue in 2025.

WATER

We **engaged** with SK Hynix in 2024 to better understand its water use and any efficiency projects underway. This engagement helped us to understand the company's water-related risks in semiconductor manufacturing, good practices in managing this risk, and has also informed our research project to extend our **Responsible AI Framework** to include the AI value-chain.

Woolworths and Coles proxy voting example: Voting in favour of the farmed seafood shareholder proposal to manage ESG risks

In 2024, Woolworths and Coles received their first shareholder proposals related to nature. These proposals were submitted alongside a special resolution to amend the company constitutions to allow non-binding shareholder proposals. Prior to finalising our voting positions we participated in one-on-one meetings with Board Directors of both companies.

In both cases, we voted:

Against the resolution to change the company constitutions:

In our experience, there is ample opportunity under Corporations Law for legitimate shareholders to bring issues before directors or at a company meeting. We generally do not support a change in company constitutions however, we do recognise that shareholder proposals are useful in some cases and we consider our voting position on specific proposals on a case by case basis.

For the resolution to increase reporting on farmed seafood:

This proposal supports greater transparency to shareholders on the risks across the farmed seafood value chain. We agree that greater analysis and disclosure on this topic helps supermarkets to identify and mitigate supply chain risks, manage regulatory exposures, and address community or customer concerns.

Against the resolution to limit farmed salmon sourcing:

This proposal called for the supermarkets to stop sourcing salmon from the Macquarie Harbour immediately. Given the specific nature of these proposal, and the potential detrimental impact to its sourcing practices, we did not vote in favour of this proposal. We also felt that the previous resolution addressed the underlying issue of farming risk within this region.

In both cases, around 30% of shareholders voted in favour of the resolution to increase reporting on farmed seafood. The other two resolutions received less than 5% votes in favour. We will be engaging with both companies in 2025 to better understand nature-related risk management practices and the intent to address the resolutions.

Cintas ESG integration example: Confirming pollution and water-related considerations before investing in our Global Equity Strategies

Cintas is a US-based uniform and work apparel company which rents and sell uniforms and ancillary products and services such as mops, first aid and fire inspection kits. In its core uniform and facility services unit, which is close to 90% of revenue, Cintas provides uniform retail programs which include supplying, washing, and mending uniforms and other profession-specific clothing.

Cintas has over 1 million customers, operates 11,000 routes distributing products and services, and has close to 45,000 full time employees.

Before investing in Cintas in our Global Equities strategies, we completed an ESG review to identify material ESG risks and opportunities, confirm an ESG risk level for the company, and identify any actions for the portfolio management team and engagement priorities for the company.

We identified a range of minor ESG considerations through this review. However the risk of environmental fines/increasing operational costs driven by the poor management of environmental discharges and excess water use, was identified as material and required further review.

We **engaged** with the company in August 2024 to clarify its environmental management processes, the use and disposal of water, and the extent of past fines. For example, through this engagement we discovered 90% of water used is returned to the ecosystem with 30% of facilities using recycled water. Cintas also uses automated dispensing systems to precisely dose all detergents and reduce the risk of overdosing caused by human error, limiting excess chemicals in waterways.

Through this engagement we were able to better understand the risks, building on the good quality disclosures from the company, and finalised the **ESG risk level** of 1. This risk level requires the ESG and portfolio management teams to monitor company ESG performance, however, no ongoing engagement objective has been identified.