PILLAR 3

Sustainable investing

Our sustainable strategies

Alphinity has two sustainable strategies, both of which are available to investors through our funds, or as customised mandates. These funds are the Australian **Alphinity Sustainable Share Fund** and the **Alphinity Global Sustainable Equity Fund**. These strategies aim to invest in companies that generate products and services that have a net positive alignment to the United Nation's Sustainable Development Goals (SDGs), exceed our minimum ESG criteria, and which are also identified as undervalued and within an earnings upgrade cycle.

Each Fund has a charter[1] that defines activity exclusions for companies generating revenue from activities incongruent with the SDGs, such as the production of fossil fuels and the production of gambling equipment.

We use the SDGs as a framework to identify sustainable companies and determine our sustainable investible universe for these strategies. The 17 goals 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 encouraging preservation of our oceans and forests.

These goals were primarily developed for use by governments, not-for-profit organisations, and industry bodies. However, given their holistic nature and the 169 individual targets, we believe that they are also a suitable framework to define sustainability in the context of investing.

The **Sustainable Compliance Committees** are responsible for approving companies for the two sustainable investible universes. The committee considers the SDG score and ESG aspects when making their decision on company approvals.

Alphinity's SDG Alignment Framework

SDG alignment is measured using an in-house methodology which positively and negatively aligns company revenues with relevant SDGs to arrive at a net score.

We align company revenues to the **169 targets that underpin the 17 SDGs** as this best represents the contribution across the various goals. We also apply a **materiality factor** of low, medium or high for each revenue alignment to reflect the strength and clarity of the contribution.

A detailed outline of our approach and SDG alignment methodology can be found within our Sustainable Investing Factsheet.

To maintain consistency and rigour in this analysis, industry assumptions guide the process and **limited environmental assurance** has been performed over the SDG Alignment Framework three times since FY22. KPMG's limited assurance is attached on **page 98**.

To date, more than **400 companies** have been assessed under our framework and have an up to date net SDG score. The SDG alignment of all companies held during 2024 are presented in **Appendix 2**.

2024 Enhancements

The SDG Alignment Framework is designed to help us balance the positive and negative implications of company products and services on sustainable development. As we increase the number of companies with an SDG score, we revise our methodology and add to, or refine, our industry assumptions.

Examples of changes made through the year include:

- Added an assumption to capture the negative impact from significant data collection to cybersecurity and privacy (SDG16.4 refers to crime).
- Updated our assumptions for technology and AI value chain companies to capture the negative impact of data centres to SDG13 (Climate Action). Impacts from water withdrawal (SDG6 Clean Water and Sanitation) are considered for some companies like semiconductor producers and major AI enablers.
- Wholistically reviewed our assumptions for diversified miners and mapped positives and negatives across the SDGs for different commodities (e.g. iron ore, lithium) by their end markets. A negative alignment was added for iron ore mining in the Pilbara, Western Australia to SDG11 (indicator 11.4 refers to cultural heritage) to acknowledge impacts to cultural heritage.

[1] Sustainable Funds - Alphinity

The role of the Sustainable Compliance Committee

Making decisions about sustainability requires judgements which can sometimes be complex and nuanced. Companies may positively impact one SDG but negatively impact another. As such, what someone perceives to be a 'sustainable' company may not be aligned with someone else with different views and values.

Helping the ESG and portfolio management teams work through these areas is one of the main functions of our Sustainable Compliance Committees. We also aim to be very clear in our fund documentation and external communications to avoid ambiguity.

For each sustainable strategy, the committee is responsible for overseeing the SDG and ESG company analysis, and approving the sustainable investment universes. Both committees include two Portfolio Managers and the same two external experts. They advise on company engagement priorities, industry trends, global policy changes, and key issues worthy of further research and exploration. The committees are supported by the ESG team, which chair the committee meetings and provide research to assist discussions.

In 2024, there were **19 committee meetings** where over **70** companies were discussed. This included proposed companies for approval, portfolio companies, and other companies where initial sustainability considerations were considered.

55 companies were proposed for approval by the committee, of which **80%** were granted approval.

Companies that were not approved typically needed further research or engagement before they could be reconsidered, and continue to be active discussions in 2025.

Examples of issues discussed with the committees in 2024 include:

Sustainability of the gig economy

The gig economy is a relatively new industry that lowers barriers to entry, supports economic opportunity and offers flexibility. It also poses risks such as weak worker protection and regulatory exposure if labour reforms are enforced by government. To contemplate this balance, we completed desktop research, comparative reviews and engaged with Uber's sustainability team to gain a better view on the benefits and harms. We concluded that the gig economy is generally beneficial, however, targeted assessments of company-specific management of work hours, wages and safety are needed to mitigate risks of exploitation.

Comparative analysis of real estate companies

We reviewed four Australian companies in the REITs sector and used the end-markets of the underlying investments to guide the SDG alignment. We found that companies with majority retail investments (for example, shopping malls) have a net negative SDG score due to the facilitation of excess consumption. Those that invest in housing, infrastructure, offices and logistics have a net positive SDG score and align to **SDG9 (Industry and Infrastructure)** and **SDG11 (Sustainable Cities)**. The Committee approved three of the four companies and **GPT** has been a holding in the Australian Sustainable Share Fund since November 2024.

CASE STUDY

Sustainable Compliance Committee example: Shopify

When the portfolio management team identify a company, with strong financial prospects, for the sustainable strategies, an **ESG review and SDG assessment** is completed to present to the committee. To make their decision, the committee considers the ESG and SDG analysis, and any links with the activity exclusions listed in the Fund Charters. This case study illustrates the approval process for Shopify.

Shopify is an e-commerce platform that provides businesses with tools to sell online and in person, manage inventory, process payments and grow their businesses. These tools are particularly important for small and medium-size enterprises (SMEs) who need easy to use and simple solutions to build their businesses.

Before investing in Shopify we initiated a review to confirm the material ESG risks and considerations, the ESG risk level, the net SDG score and suitability for our Global Sustainable Equity Fund. These were proposed to the committee in November 2024. The committee requested additional evidence from the ESG team to verify the benefits to SMEs related to **SDG8 (Decent Work and Economic Growth)**.

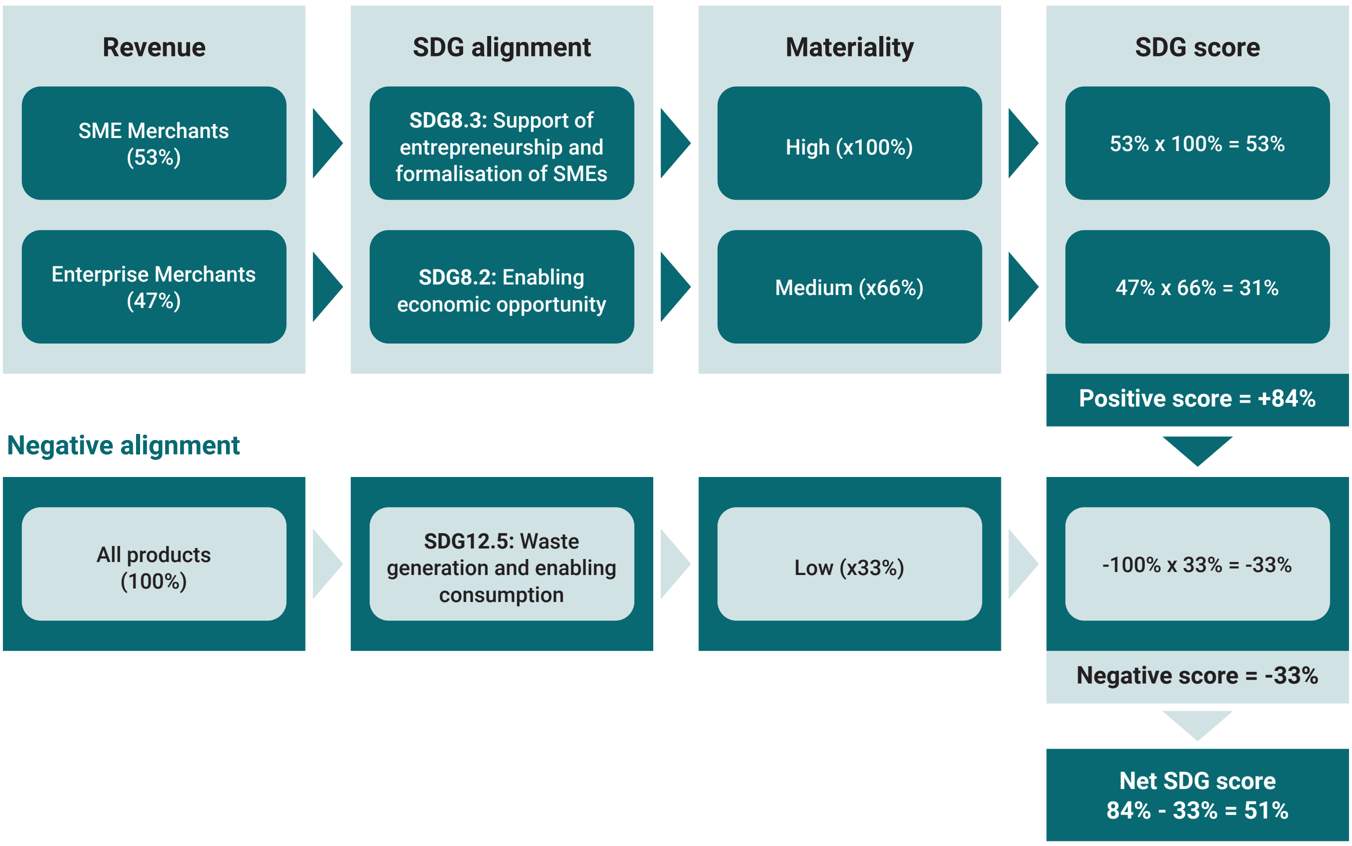
After seeking clarification with the company directly and completing further desktop research, a revised alignment and research conclusions were presented to the committee. The main improvement was the addition of proof points to support the alignment towards target 8.3, which specifically refers to the formalisation and growth of SMEs.

- An external report found that 3.5 million ‘Core’ merchants make up the majority of Shopify users, while larger ‘Enterprise’ merchants with sales exceeding 1 million make up only 25 000. A report also found Shopify is the cheaper alternative for payments processing with a 3.2% merchant fee compared to 4.5% from Paypal.
- Using 2022 data from Shopify’s Entrepreneur Index, which specifies the jobs created and GDP creation by country, we determined that Shopify enables significant economic contribution.

The outcome of the assessment for Shopify was a net positive **SDG score of 51%**. This reflects the conclusion that Shopify’s role in economic productivity and support for SMEs outweighs the platform’s role in facilitating excess consumption and waste. Shopify was approved by the **Sustainable Compliance Committee** and subsequently added to the Global Sustainable Equity Fund.

Shopify: Revenue alignment to the SDGs

Positive alignment



2024 SDG insights

The SDGs were structured to address global sustainable development challenges such as health and wellbeing, climate change, financial stability, waste and resource consumption, nature loss and equality.

The SDG insights on the following pages present the SDG characteristics for each sustainable strategy in 2024 using a weighted methodology.[2] We generate these insights by weighting company SDG alignment by the average portfolio position size in 2024. This identifies which SDGs are most strongly aligned through the year.

We also map our SDG alignments to globally important sustainability thematics. The outcome of this mapping is shown below, with examples of activities that contribute to the thematic, and the top company contributors through the year.

Four thematics and 11 SDGs aligned to our funds' holdings in 2024

Thematics and SDGs	Companies that deliver	Top contributors[3]	
		Australian Sustainable Share Fund	Global Sustainable Equity Fund
Sustainable cities	Waste and water management services; urban infrastructure; renewable energy and electrification of cities; iron ore and steel products; safe and efficient transport systems; materials and industrial activity	• **BHP Group** • **Goodman Group** • **Rio Tinto** • **Suncorp** • **James Hardie**	• **Nvidia** • **Schneider Electric** • **ASML** • **Waste Connections** • **Arch Capital** • **Home Depot**
Inclusive economies	Responsible financial services; business productivity solutions; technology and semiconductors that underpin the digital economy; access to internet and information	• **Commonwealth Bank** • **Westpac** • **National Australia Bank** • **Wesfarmers** • **Telstra** • **Cochlear**	• **Bank of America** • **MercadoLibre** • **Microsoft** • **Alphabet** • **Nvidia** • **AirBNB** • **Alphabet**
Healthy lives	Healthy and accessible food; disease prevention and treatment; healthcare services and insurance; safe communities	• **Coles** • **Woolworths** • **Wesfarmers** • **CSL** • **Resmed** • **Cochlear** • **Life360**	• **Novonesis** • **Chipotle** • **Zoetis** • **Merck & Co** • **Intuitive Surgical** • **Novo Nordisk** • **Motorola Solutions**
Climate action	Low carbon solutions, renewable energy and battery storage; critical minerals such as lithium, copper and nickel; reliable energy to power our cities and economy	• **BHP Group** • **Pilbara Minerals** • **Rio Tinto**	• **Quanta Services** • **Schneider Electric** • **Waste Connections**

[2] To reflect our sustainable investing activity over the 12-month period of this report, we utilise a weighted approach to SDG alignment rather than point-in-time company-level scores. To do this, we create composite portfolios for each Fund representing all companies held in 2024 and their average monthly holding weight. A weighted net SDG alignment score is calculated by multiplying each company's positive/negative SDG alignment score by its average monthly weight. This methodology upweights the SDG score of companies held at larger weights for longer periods.

[3] Contributors are defined as the top three companies that positively align to the relevant SDG, using the weighted approach specified above.

SDG alignment

Similar to previous years, the SDG characteristics of each sustainable strategy are presented in this section of the report. The circular charts below have been presented in our annual disclosures since 2021 and illustrate the strongest net SDG alignment across all companies held in the strategy for the 12-month reporting period. This year, we have also provided more insights into the SDG alignment for each strategy, outlining the positive and negative distribution across all 17 goals. These additional charts offer a wholistic picture of the diverse SDG alignment within our sustainable strategies, and illustrates both the positive and negative alignment across all 17 goals. We have also included examples of where the negative SDG impacts are managed in line with our ESG Framework.

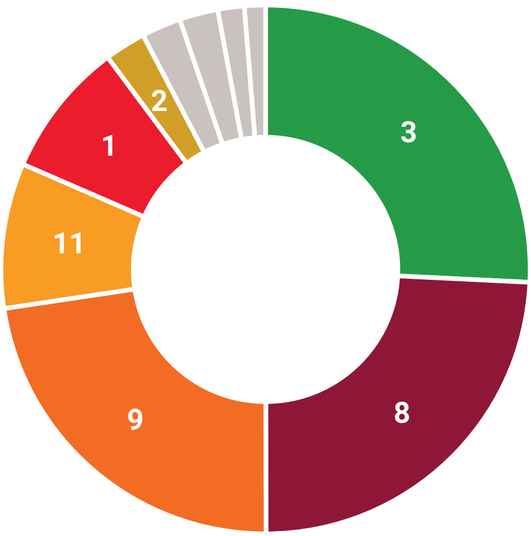
Weighted net SDG alignment per strategy*

The graphs below show the weighted net SDG alignment for each sustainable strategy using the weighted approach outlined previously. These illustrate that on average, both the Australian Sustainable Share Fund and Global Sustainable Equity Fund have the **strongest overall contribution** to SDG3 (Good Health and Well-being), SDG8 (Decent Work and Economic Growth), SDG9 (Industry, Innovation and Infrastructure) and SDG11 (Sustainable Cities). This is consistent with observations in previous years.

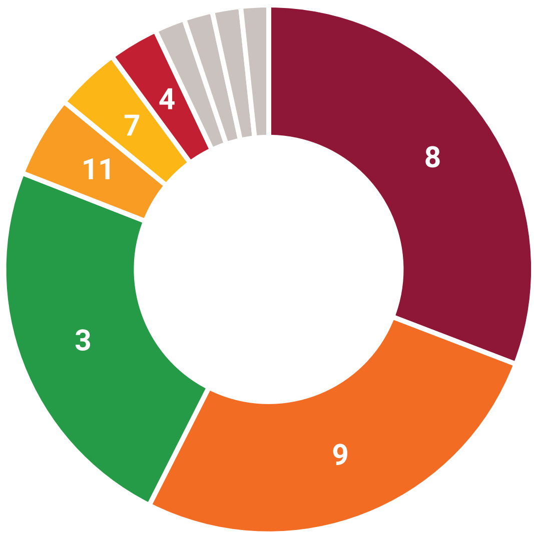
Our sustainable investing approach is to consider the positive and negative SDG alignments and invest in companies where the SDG score is net positive. This year, we found four SDGs that most commonly present with **negative alignment**. These are SDG13 (Climate Action) due to carbon emissions, SDG12 (Responsible Consumption and Production) to reflect waste generation and excess consumption, SDG15 (Life on Land) for ecosystem impacts, and SDG6 (Clean Water and Sanitation) due to water use. Other examples of negative alignment for specific companies are provided for each strategy below.

These negative impacts can often overlap with our **management of ESG issues** and provide a clear engagement agenda with companies. As company's mature in their management of issues like climate change and water, we anticipate that the SDG alignment can be adjusted and company SDG scores can improve over time.

Australian Sustainable Share Fund



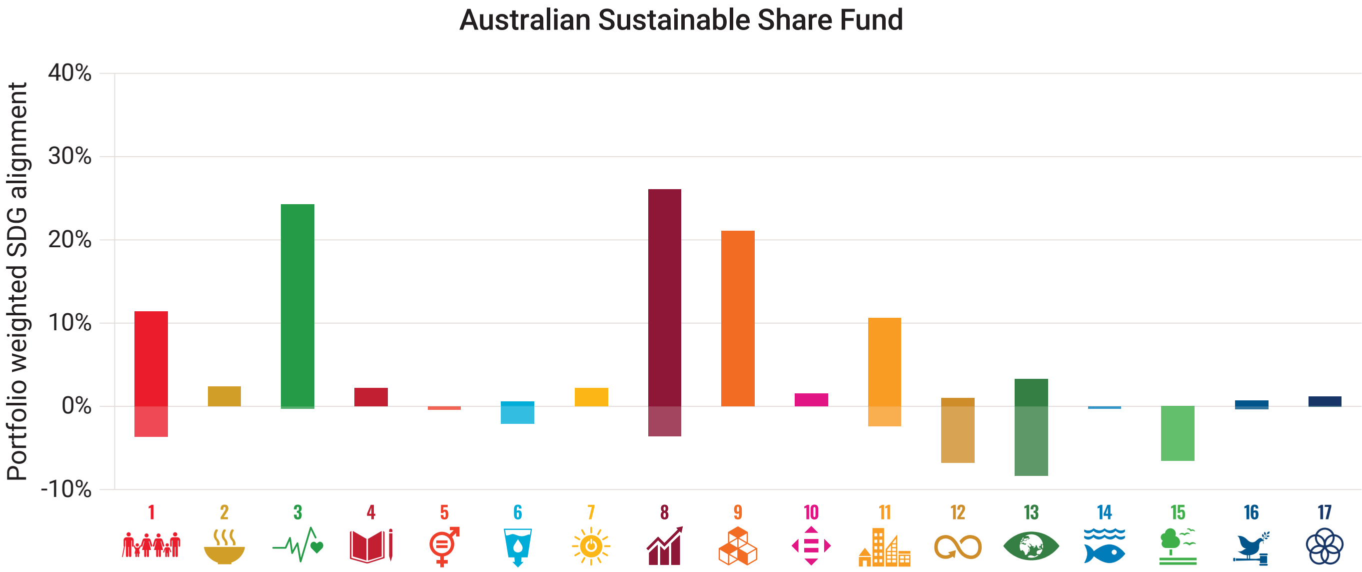
Global Sustainable Equity Fund



* The charts represents the weighted net SDG alignment as outlined in the methodology on the previous page. Less material SDGs are not labelled in this chart. Positive and negative alignment across all 17 SDGs are presented on pages 38-39. This chart is included in the KPMG Limited Assurance Scope.

Australian Sustainable Share Fund insights

The following graph presents the weighted SDG alignment across all companies held in the strategy for the 12-month reporting period.



Positive SDG alignment

SDG8 had the strongest overall alignment as a result of our investment in financial services companies like **Commonwealth Bank**, insurance companies like **Suncorp** and logistic solutions providers like **Brambles,** that facilitate the flow of goods through the economy.

Strong alignment to **SDG3** represents our investments in healthcare companies and solutions like the critical therapeutic products provided by **CSL**, hearing implants from **Cochlear** and respiratory support systems from **Resmed** and **Fisher and Paykel Healthcare**. **Life360** also improves child and road safety through its technology platform.

The alignment to **SDG9** reflects our investment in mining companies like **South32** and **Capstone Copper** which underpin the production of transition metals. Lithium, copper, aluminium and nickel strongly support electrification and development across infrastructure, transport and technology. While these companies demonstrate a net positive contribution to the SDGs, there are impacts to land and water as described in the negative alignment comments.

Service providers like **Cleanaway** and **Transurban**, and construction companies like **James Hardie** and **Reliance Worldwide**, drive the alignment to **SDG11**. Companies engaged in iron ore such as **BHP** and **Deterra Royalties** support infrastructure and underpin renewable energy like wind and hydropower. Additionally, property insurance providers also support resilience of the built environment.

Examples of company-specific alignment to other SDGs include: **SDG2 (Zero Hunger)** for food retailers like Woolworths and Coles; **SDG7 (Affordable and Clean Energy)** and **SDG13 (Climate Action)** for essential future facing commodities like lithium; and **SDG17 (Partnerships for the Goals)** for internet connectivity services from **Telstra**.

Negative SDG alignment

The negative alignment to **SDG13** is driven by the emissions impacts from miners, steel producers and airlines. Our Climate Change section (page 42) outlines the top carbon contributors in the Australian Sustainable Share Fund, their performance against our Net Zero Alignment Framework, and engagement examples.

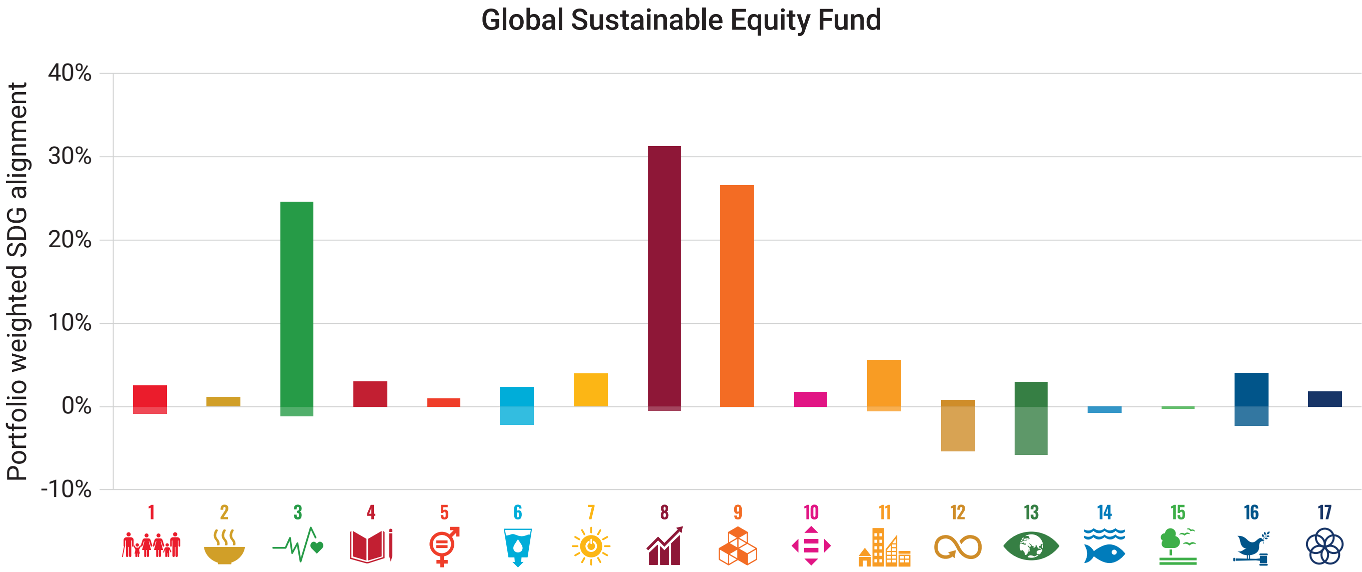
The negative to **SDG12** reflects inherent waste from healthcare companies, construction waste and the impacts from consumer companies through the sale of low cost discretionary goods (**Wesfarmers, Woolworths**). Circular economy and waste management practices are ongoing engagement areas.

The land footprint from infrastructure developers such as **Goodman Group** and miners, especially those engaged in open pit mining such as **Rio Tinto** and **BHP**, drive the negative alignment present in **SDG15**. We focus on ecosystem impacts and water management (relevant to **SDG6**) within our ESG Framework.

Additionally, the negatives to **SDG1** and **SDG8** were driven by banks. We have introduced the risks brought by unsustainable debt cycles and systemic threats from large financial institutions into our SDG alignment process this year.

Global Sustainable Equity Fund insights

The following graph presents the weighted SDG alignment across all companies held in the strategy for the 12-month reporting period.



Positive SDG alignment

SDG8 has the strongest overall alignment as a result of our investment in technology companies like **Microsoft** and **Alphabet**, and enablers of advanced computing and artificial intelligence like **Nvidia**. **MercadoLibre** represented strong alignment as it facilitates e-commerce in a developing economy.

The strong alignment to **SDG9** represents leading-edge technology companies (**Cadence Systems, ASML**) and those that facilitate sustainable industrial activity through electrification and automation (**Schneider Electric**). **Quanta Services** underpins renewable energy and electricity networks, while industrial gases produced by **Linde** support activities across manufacturing and healthcare.

The alignment to **SDG3** reflects the contribution of healthcare companies like **Intuitive Surgical** and **Thermo Fisher**. **Merck's** therapeutic products across oncology and rare diseases enable modern health treatments. **Procter & Gamble** offers a range of personal health and care products.

Waste management companies like **Waste Connections,** building products sold by **Home Depot**, and property insurance companies like **Arch Capital** drive the alignment to **SDG11**.

Examples of company-specific alignment to other SDGs include: **SDG16 (Peace and Justice)** was driven by communication and command centre products from **Motorola Solutions,** and **SDG17 (Partnerships for the Goals)** for access to information from **Alphabet**.

Negative SDG alignment

The negative alignment to **SDG13** is driven by the emissions impacts from large technology companies that draw on energy for data centre activities (**Microsoft, Nvidia**). This has also been influenced by the portfolio weights in these companies throughout 2024. **Linde's** air separation units are energy intensive to operate and particularly emissions intensive in the case of grey hydrogen production. **Novonesis**, a biosolutions manufacturer, and **Waste Connections**, through landfills, are also emissions intensive. Our Climate Change section (page 42) outlines the top carbon contributors in the Global Sustainable Equity Fund, their performance against our Net Zero Alignment Framework, and engagement examples.

The negative to **SDG12** reflects the waste and excess consumption impacts from consumer companies and their products (**Procter & Gamble, Apple, MercadoLibre**). Circular economy practices are engagement topics of interest with these companies.

The water footprint from semiconductor and data centres (**SK Hynix, Nvidia, TSMC**) drive the negative alignment present in **SDG6**. We focus on water management with these companies within our ESG Framework.