ESG and Sustainability Report

alphinity
INVESTMENT MANAGEMENT

About this report

This is Alphinity's third Environmental, Social and Governance (ESG) and Sustainability Report. This report highlights key ESG and sustainability outcomes and achievements across all Alphinity strategies including the Australian Share Fund, Concentrated Australian Share Fund, Australian Sustainable Share Fund, Global Equity Fund, and Global Sustainable Equity Fund.

In alignment with our dedication to responsible investment, this report serves as an overview for both our operations and investment practices. Beginning with operational initiatives to manage our environmental and social footprint, the report then delves into four of our pillars of responsible investing: ESG integration, stewardship and active engagement, sustainable investing and thematics. Our annual reporting and policy documents demonstrate our commitment to transparency, our fifth pillar.

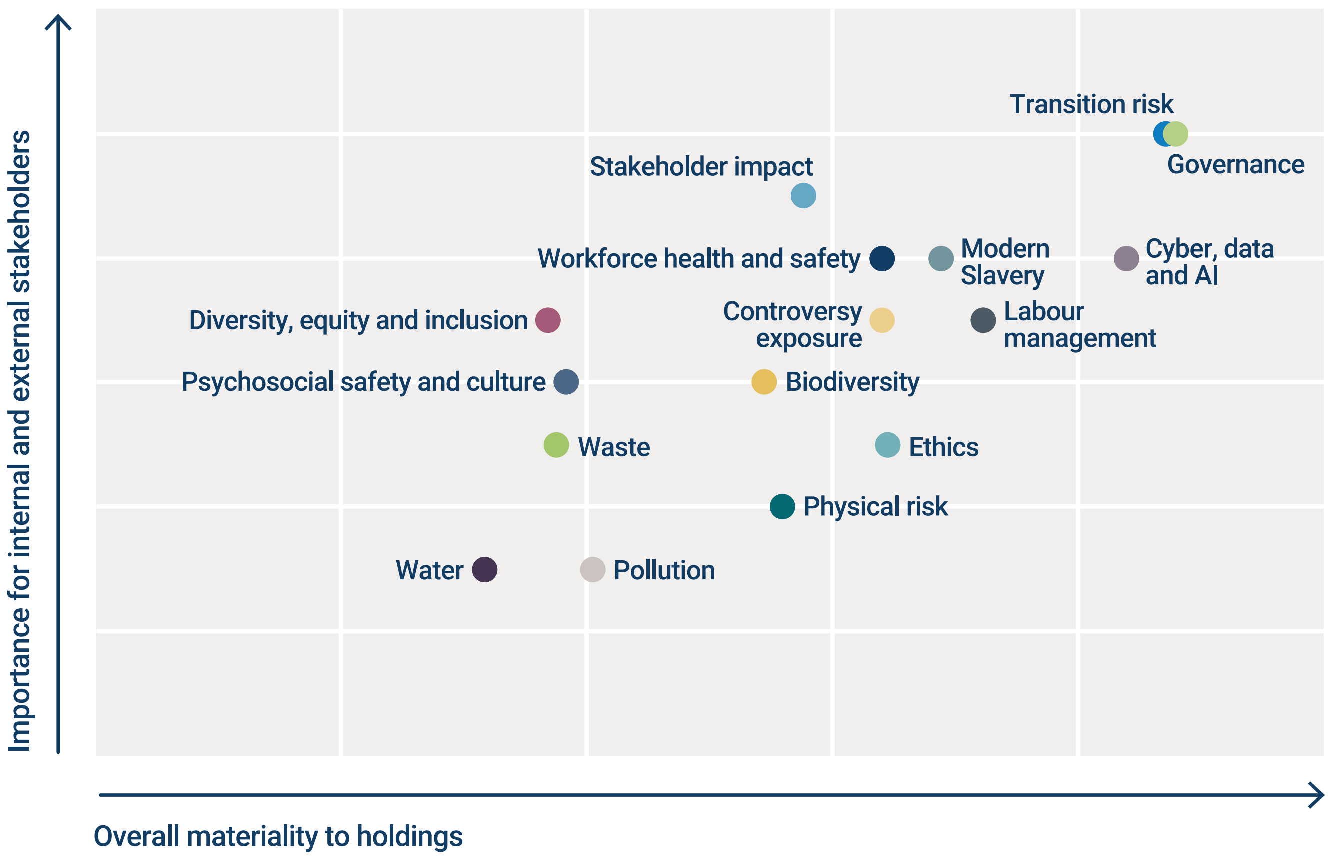
From this year, we have moved to a calendar year reporting cycle rather than financial year. Unless stated otherwise, the data, outcomes and examples in this report are from 1 July 2022 to 31 December 2023. This 18-month reporting period covers the 2023 calendar year and the second half of 2022 which was not part of the FY22 ESG and Sustainability Report.

Materiality

This materiality matrix presents the range of ESG and sustainability issues which were assessed as material across our 2023 holdings. To determine the most material ESG issues, we analysed Alphinity's internal ESG Materiality Framework that captures material ESG risks and opportunities of our investee companies. Ongoing interactions with our clients and their view on ESG topics, external regulatory requirements, and ESG related guidelines and frameworks has also influenced this determination of material ESG topics.

Our management of these issues is summarised within the thematics section of this report.

2023 Materiality matrix



Supporting documents

Supporting documents, such as Alphinity's **ESG** and **Stewardship** policies, are available on the Alphinity website, alongside separate information sheets for **climate change**, **modern slavery**, **ESG integration** and our **sustainable investing** approach.

Contents

Introduction from the Alphinity founders

Andrew Martin
Principal,
Portfolio
Manager

Bruce Smith
Principal,
Portfolio
Manager

Stephane Andre
Principal,
Portfolio
Manager

We are proud to present Alphinity's third annual ESG and Sustainability Report. The report is full of case studies and examples that demonstrate our ongoing commitment to sustainability, investing responsibly and transparency. We hope it will provide some insight to you on our ESG and sustainability related priorities, processes, policies and outcomes.

Alphinity's ESG team are responsible for preparing this report and managing the wide range of activities that fall under our five pillars of responsible investing. Delivery of these activities, however, is the responsibility of the entire investment team. Our collaborative approach to ESG and sustainability, whereby all teams work together to identify and manage risks, enables the whole team to integrate ESG-related matters into our investment decisions.

While we've been focussed on ESG since Alphinity's inception in 2010, our approach is not static and we continue to evolve our thinking as the environment and frameworks for investors change. 2023 alone saw a raft of new regulations. These included the introduction of the Task Force on Nature related Financial Disclosures (TNFD); the finalisation of the International Sustainability Standards Board (ISSB); the EU pushing ahead with what is effectively a border adjustment mechanism for carbon emissions; and the US introducing the Inflation Reduction Act. Locally, the Australian government announced the appointment of a Modern Slavery Commissioner and implemented mandatory climate change reporting. Our regulators have also been focussed on greenwashing and reducing the confusion around ESG-related fund labelling and transparency. Our team continues to navigate these changes and understand the potential impacts to our business, on companies, markets and ultimately, the risk and return opportunities for our portfolios.

With the increasing global focus on sustainability in mind, we stepped up our participation in global ESG conferences and collaborative engagements in 2023. We again travelled to the UK to engage with local experts to better understand the likely direction of ESG regulation and reporting requirements. We also signed up to the Net Zero Asset Managers initiative and are planning to set related organisational and investment climate change commitments by the end of 2024.

Part of our maturation in ESG has been the growing focus on thematic and top-down research and sharing our insights with the market. We believe it is important to actively contribute to ESG thought leadership and be a positive voice in our field. An example of this is our partnership with Australia's premier scientific research organisation, the CSIRO, that we announced in 2023. This initiative aims to develop a framework for investors to assess the implementation of Responsible Artificial Intelligence (AI) considerations for listed equities. The final report will be published in May 2024.

As in previous years, this ESG and Sustainability report has been structured around our internal ESG Framework. We again share key metrics related to engagement, proxy voting and matters relating to our domestic and global sustainable strategies. However, in line with our growing focus on thematics, this report includes sections on seven major ESG themes that have been in focus throughout the period: climate change, nature, workforce, human rights, reputation and social license, digital technology, and sustainability governance. We have detailed the key issues within each theme and present case studies that show the way in which we have integrated relevant considerations through our ESG management practices, engagement, stewardship and broader investment research. Our SDG alignment framework and carbon metrics were assured by KPMG for the second year and this limited assurance can be found on page 92.

Although the outcomes in the report are from this reporting period only, they represent more than a decade of effort to invest and operate responsibly. Alphinity has always strived to be a leader in ESG and sustainability as these elements are fundamental to our success as investment managers. We have a fiduciary responsibility to embed environmental, social and governance considerations into our investment process, to both maximise returns and manage risk. By improving our understanding of the way in which companies manage ESG issues, we are better equipped to pursue our objective of generating above average, long-term sustainable returns.

It is with great pleasure that we present this report to you. We welcome feedback and to hear of areas that you would like to see in future editions.

Highlights

112 tonnes of carbon offsets

purchased through Carbon Positive Australia as a donation to help fund nature-based projects across Australia.

7 thematics 24 ESG issues

Climate change
Nature
Workforce
Modern slavery
Social licence
Digital technology
Sustainability governance

More than 70 company examples

and case studies presented in this report

209 dedicated ESG meetings

with 137 companies across the 18-month reporting period

10 ESG research reports

Published deep dives on AI, the apparel supply chain, and antimicrobial resistance

Financed emissions

Disclosed for the third consecutive year

Joined PRI Advance

as lead investors for Freeport McMoran and support investors for BHP

SDG3, SDG8, SDG9, SDG11

100% of holdings across our sustainable funds align to one of these four SDGs

Limited assurance

performed over the 2023 SDG Alignment Framework and Carbon metrics

Enhanced thematic frameworks

for nature, responsible AI and modern slavery

Commitment to Net Zero Asset Managers (NZAM) initiative

Confirmed our commitment to Net Zero by 2050

4 global ESG conferences

PRI (Tokyo), RIAA, IGCC Summit, Responsible Investor (Europe)

MEMBERS OF: riaa Responsible Investment Association Australasia; Signatory of: PRI Principles for Responsible Investment; 40:40 Vision; FAIRR A Coller Initiative; Investor Group on Climate Change; advance A stewardship initiative for human rights and social issues; Climate Action 100+

Our Operations

About Alphinity

Established in
2010

18
full time employees

5
strategies across global and Australian listed equities

2
dedicated sustainable strategies

$A26 billion
of assets under management (31 December 2023)

Who we are

Alphinity is an active equities investment manager based in Sydney. Our purpose is to always put clients' interests first by striving to deliver consistent outperformance. We do this through our philosophy of investing in quality, undervalued companies which our research concludes are in, or about to enter, a period of earnings upgrades.

Alphinity was established in 2010 by its four founders who had all worked together in Australian equities at a large global firm since the early 2000s. In 2015, Alphinity expanded to include a highly experienced global investment team applying the same philosophy and process to the much larger set of equity investment opportunities outside of Australia. We now have two dedicated teams managing Australian and global equity strategies, supported by a range of specialist resources.

Our boutique ownership structure results in an alignment between our fund managers and the objectives of investors in our strategies. By outsourcing the bulk of business management, distribution, administration and compliance services to Fidante, a wholly-owned subsidiary of ASX-listed financial services company Challenger Ltd, Alphinity employees can focus solely on investing and adding value to our clients.

Here at Alphinity, we have:

- A well-defined investment philosophy with a sole focus on investing in quality undervalued companies in an earnings upgrade cycle.
- A distinctive, disciplined and rigorous research process. This process is a unique partnership between detailed analyst-driven fundamental research and targeted quantitative research inputs that help identify companies that fit the investment philosophy.
- Dedicated ESG resources and a comprehensive approach to responsible investment.
- Two highly experienced, accomplished, and cohesive portfolio management teams.
- A business structure that strongly aligns the objectives of our clients with our investment staff.
- Domestic and global analysts and portfolio managers all based in Sydney.

We have five active strategies across domestic and global equities, including two sustainable strategies. Our sustainable strategies aim to invest in listed global and Australian companies that we assess as having the ability to make a net positive contribution to society in areas of economic, environmental and/or social development by contributing towards the advancement of the 17 United Nations Sustainable Development Goals (SDGs).

Our team

Our team is made up of 18 full time employees across portfolio management (both domestic and global equities), ESG, trading and quantitative research.

There were no additions to full-time staff across the reporting period, however Johan Carlberg, a founder and CEO, retired at the end of 2023. Stephane Andre and Andrew Martin have assumed the roles of co-CEOs. In 2024 we will welcome two new team members including Andrew Hair (February) as Chief Commercial and Operating Officer and Monique Rooney (March) as Senior Analyst, Domestic Equities.

Global


Jeff Thomson
Portfolio Manager


Mary Manning
Portfolio Manager


Jonas Palmqvist
Portfolio Manager


Chris Willcocks
Portfolio Manager


Trent Masters
Portfolio Manager

Domestic


Stephane Andre
Principal, Portfolio Manager


Johan Carlberg
Principal, Portfolio Manager


Bruce Smith
Principal, Portfolio Manager


Andrew Martin
Principal, Portfolio Manager


Stuart Welch
Portfolio Manager


Jacob Barnes
Research Analyst


Andrey Mironenko
Research Analyst

Shared resources


Jessica Cairns
Head of ESG and Sustainability


Moana Nottage
ESG and Sustainability Analyst


Elfreda Jonker
Client Portfolio Manager


Andrew Taylor
Head of Trading


Richard Hitchens
Senior Quantitative Analyst


Nick Ying
Trader/Quantitative Analyst

Fidante administration and distribution (~160 staff)

Investment operations	Risk & performance	Compliance	Fund finance	Business services

Our strategies

Alphinity has five active strategies across domestic and global equities with total funds under management of $A26.4 billion as at 31 December 2023.

Strategy name	Strategy summary	Year established	Number of stocks
Australian Share	Diversified portfolio of quality large-cap Australian shares	2010	35-55
Concentrated Australian Share	Concentrated portfolio of Australian shares representing our best ideas	2010	20-30
Australian Sustainable Share	Diversified portfolio of Australian shares that support one or more of the United Nations Sustainable Development Goals	2010	35-55
Global Equity	Concentrated portfolio of high-quality global shares diversified across different industries and countries	2015	25-40
Global Sustainable Equity	Concentrated portfolio of global shares that support one or more of the United Nations Sustainable Development Goals	2021	25-40

Operational ESG

Alphinity has a small operational footprint, however we recognise that we need to manage our impact and make a positive contribution where possible. We have provided information on our carbon footprint, diversity and charity initiatives below. Our approach to managing modern slavery and human rights across our operations is outlined within our Modern Slavery Fact sheet.

Operational carbon emissions

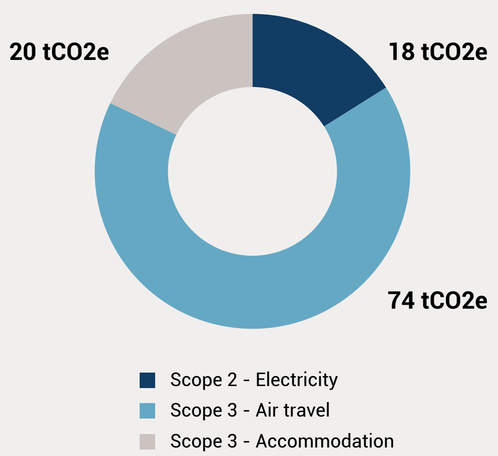
In our FY22 ESG and Sustainability Report we disclosed our operational emissions footprint for the first time. This year, we have also disclosed key elements of our scope 3 emissions.

Our Scope 2 emissions increased from 8tCO_2e in 2022 to 18tCO_2e in 2023, primarily due to our move into larger office space at the end of 2022.

Carbon offsets

We have purchased **112 tonnes of carbon offsets** through **Carbon Positive Australia** as a donation to help fund nature-based projects across Australia.

2023 Alphinity operational carbon emissions[2]



Alphinity's operational energy use is very small and consists of:

- Electricity used to power our single office in Sydney, New South Wales (scope 2): 18tCO2e
- Indirect fuel use for air travel (scope 3): 74tCO2e
- Indirect electricity used in accommodation when employees travel (scope 3): 20tCO2e

Our total calculated emissions footprint is 112tCO2e. We have no Scope 1 emissions as fuel is not used in operations.

We have also estimated the Scope 3 emissions from work-related air travel using the International Civil Aviation Organisation's (ICAO) carbon emissions calculator[1] and emissions from work-related overnight accommodation using the Carbon Positive Australia emissions calculator.

Other relevant Scope 3 emissions for our operations include emissions from taxis, public transport and working from home. We are considering how we can include information about these sources in future years.

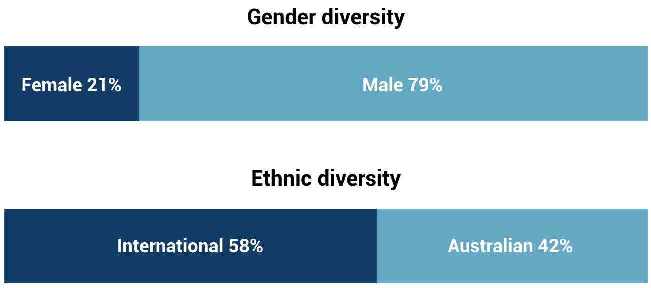
Diversity

Alphinity prides itself on fostering an inclusive and stable work culture. As a boutique asset manager, Alphinity has a relatively small number of employees and a low rate of staff turnover. Our activities are supported by the large and highly diverse workforce at Fidante Partners.

Our workforce is culturally diverse with people from a range of backgrounds and nations. More than half our employees were born outside of Australia, from places including Sweden, Belgium, Japan, Canada, South Africa, Russia and China. While we celebrate this diversity, we recognise the ongoing challenge of increasing our gender diversity, particularly within our investment team.

When it comes to recruitment, our goal is to have a fair interview process that identifies the best candidates for each role. We remain cognisant of encouraging individuals from diverse backgrounds and genders to apply for any roles and strive to maintain inclusive language through our advertisements to reduce potential bias in our hiring processes.

Diversity metrics of Alphinity



Giving back

We are proud to have provided meaningful support to both the Women's Community Shelters (WCS) and to have again supported Ardoch as a charity partner for a second year. There are many organisations doing good in the world, and our decision to support WCS and Ardoch aligns with our preference to be actively involved in local charities that align with the interest of our teams. In June 2023 we also introduced the option for employees to take one volunteer day per year to support an NGO, environmental, community or charitable project of their choice.

Ardoch

Ardoch is a children's charity focused on improving educational outcomes for children and young people in disadvantaged communities across Sydney and Melbourne. We are strong supporters of the organisation's spirit and were pleased to have funded the Learning through Lunch program and Broadening Horizons initiative in 2023. One of the volunteering days involved a Tafe tour and dining experience with a high school class in Sydney, to share our work experience and day-to-day role as investment specialists.

Women's Community Shelters

WCS is an Australian charity working directly with local communities to set up crisis accommodation shelters for women and children experiencing homelessness and domestic and family violence. The charity works with communities to establish new shelters, which provide short term emergency accommodation. Through the Helping Hands initiative, WCS invites volunteers to carry out gardening, painting or repairs to their properties.

[1] 10% of the carbon emissions for flights have been estimated using emissions for flights of similar distances because the data was not available in the ICAO calculator.

[2] Emissions data is for the 2023 calendar year.

Pillars of Responsible Investing

We are signatories to the United Nations-backed Principles of Responsible Investment (PRI). The PRI defines responsible investment as a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership.

Our five pillars of responsible investing were established in 2021 and are relevant for all aspects of Alphinity's investment practices for all five strategies. This year, we have added three new goals to represent progress in key areas. We believe that taking a broad approach to ESG risk management and communicating our views externally supports wider ESG management and helps companies understand investor expectations. We also recognise the growing regulator and market focus on greenwashing and transparency. We therefore include aspects such as thematic research, transparency and reporting, and stewardship and active engagement alongside ESG integration in our responsible investing strategy.

Our PRI Transparency Report is available here.

Spectrum of responsible investing

The spectrum of responsible investing is a framework that the Responsible Investment Association of Australasia uses to define the range of approaches to responsible and ethical investing. Below is a snapshot of how our strategies align with the various components of the spectrum.

- **ESG integration:** All strategies use a consistent approach to ESG integration including an ESG Framework and integration of ESG aspects into the investment process.
- **Negative screening:** All strategies exclude thermal coal producers, tobacco producers and controversial weapons manufacturers with a range of revenue thresholds. The sustainable strategies further exclude a range of additional activities including alcohol production, pornography, fossil fuel production, and utilities that use fossil fuels to generate electricity. A full list of exclusions, including revenue thresholds, can be viewed in the relevant fund charter on the Alphinity website.
- **Stewardship:** All strategies are engaged in stewardship practices including one-on-one company engagement, collaborative engagements, participation in industry groups, research, and proxy voting.
- **Positive screening and sustainable investing:** The sustainable strategies build on the shared ESG process and apply positive screening and sustainable themed investing to its universe, seeking to invest in companies that we assess as having a net positive alignment to the SDGs.

More focus on sustainable investing and positive outcomes

Traditional investment	RESPONSIBLE AND ETHICAL INVESTING							Philanthropy
	ESG integration	Negative screening	Norms based screening	Stewardship	Positive screening	Sustainable themed investing	Impact investing	
Limited or no regard for ESG and ethical factors in investment decision making	The systematic and explicit inclusion by investment managers of environmental, social and governance factors into the investment decision -making process	The exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria	Screening of investments against minimum standards of business or government practice	Employing shareholder power to influence corporate behaviour	Intentionally tilting an investment portfolio towards positive solutions, or targeting companies with better ESG performance relative to peers	Investment in themes or assets and programs specifically related to improving social and environmental sustainability	Investments made with the intention to generate positive, measurable social and environmental impact alongside a financia return	Using grants to target positive social and environmental outcomes with no direct financial return

Core and concentrated funds

Sustainable funds

Source: Responsible Investment Association of Australasia

Our pillars

The following outlines the five pillars of our approach to responsible investing and key 2023 updates.

Pillar	Goal	Updates from this reporting period
ESG integration We integrate ESG factors into investment decision making	Use an ESG materiality process to identify and manage ESG risks and opportunities for holdings	• We completed rolling out internal ESG risk levels for all investee companies as an enhancement to our established ESG Materiality process • We continued our development of thematic frameworks and checklists for specific issues
	Monitor ESG risks and opportunities and any influence on investment decisions	• We have included examples of ESG integration throughout this report • An ESG risk register was established in 2023 to aid the monitoring program for key issues
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 companies on an ongoing basis to manage ESG risks	• We held 209 dedicated ESG-focused engagement meetings over the 18-month reporting period • We have identified engagement objectives and tracked progress for material ESG issues across our holdings. Examples of outcomes are throughout this report
	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
	NEW Escalate ESG issues in line with our Stewardship Policy	• For specific ESG issues, we implemented escalation practices such as letters to Board and votes against the re-election of Directors • Examples are within the Stewardship section of this report
Sustainable Strategies We have two dedicated sustainability strategies structured around the UNSDGs	Use a consistent and documented approach for the SDG analysis	• We maintained sector-level assumptions for our SDG analysis process • Our SDG alignment framework and carbon metrics were assured by KPMG for the second year. KPMG's limited assurance report is attached to this report • Completed three bi-annual reviews of each Fund's SDG data with the Sustainable Compliance Committee
	Report the SDG alignment of strategy holdings	• Our weighted SDG alignment has been presented in this report. The positive and negative alignment to the SDGs for all holdings in the reporting period are presented in Appendix 2
	NEW Maintain RIAA certification for both funds	• Our two sustainable strategies were re-certified under the RIAA certification program in May 2023
Thematics We consider, research, and assess key ESG and sustainability thematics	Identify key sustainability thematics and undertake research to inform broader views on ESG, sustainability, or for specific companies	• We undertook research for specific thematics including: – Artificial intelligence – Antimicrobial resistance – Sustainable banking • See the Thematics sections of this report for more information
	NEW Integrate thematic assessments into our ESG Framework	• In 2023 we started to develop two new thematic frameworks for nature and responsible AI. These will be completed in 2024
Transparency We disclose proxy activities, portfolio holdings and have a public ESG Policy and Stewardship Policy.	Publish annual ESG and Sustainability Report	• This is Alphinity's third ESG and Sustainability Report, covering the 18-month period between 30 June 2022 to 31 December 2023 • We completed the 2023 PRI Assessment and have published the Transparency Report on our website
	Review Responsible Investment policies and develop additional policies as needed	• All policies have been reviewed and updated as necessary. No additional policies have been published in 2023

PILLAR 1

ESG integration

ESG is the management of environmental, social, and governance (ESG) risks and opportunities. Generally, these risks and opportunities are related to operational practices such as emissions reduction, community management, employee safety and corporate governance.

Our ESG Framework includes a structured assessment of key issues across environmental, social and governance factors. The later sections of this report include an overview of these key ESG topics (e.g. workforce, nature) and the various issues that we consider. These sections also include specific case studies on company engagement and research for these topics.

We integrate environmental, social, and corporate governance (ESG) considerations across all portfolios that we manage. We believe that the integration of ESG research into investment management processes and ownership practices is essential for our success as investment managers, as these factors can have a significant impact on financial performance. This reflects our fiduciary obligation to our clients to both maximise returns and manage risks. By improving our understanding of individual companies' management of ESG issues, we aim to achieve our objective of generating above average, long-term sustainable returns. As such, integrating ESG into investment decisions is the responsibility of the investment team and viewed as a key component of our fundamental investment analysis.

Our approach

We use a materiality approach to analyse the balance of ESG factors for a particular company and determine the best path forward. For example, further research, engagement, financial modelling or portfolio construction. 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 engagement with the company, industry experts or other third parties.

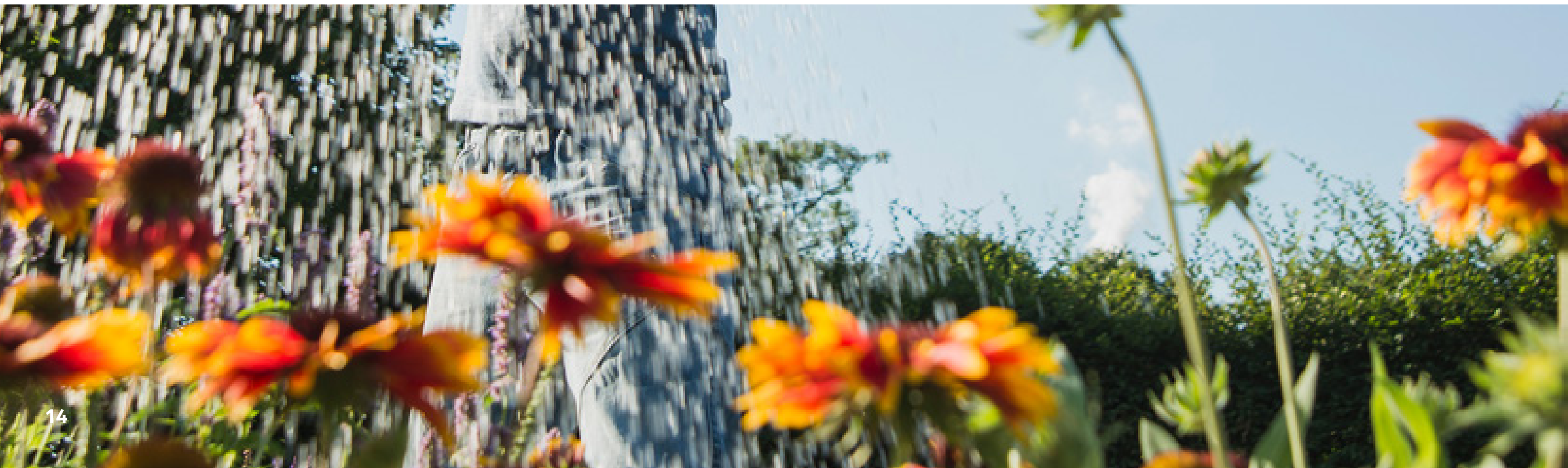
More information on our approach to ESG integration can be found in our **ESG Policy** and **ESG integration** fact sheet. Examples of ESG integration are also provided below.

Evolution of 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. Depending on the number and extent of various threats and opportunities, a risk level from 1 (low) to 4 (avoid) is assigned to each company in the portfolio. Any stock that is assessed at the highest risk level (avoid) is not considered for inclusion into the strategies.

In 2023 we completed the roll out of the internal ESG risk level and established ESG risk registers for domestic and global holdings. We also continued our work to develop thematic frameworks and checklists for specific issues. For example, we have begun work on a nature framework (see the Nature chapter for more information) and have also identified best practice measures for cyber risk management (see the Digital Technology chapter for more information).



Alphinity ESG Framework

ESG data, company reporting, industry reports

Thematic frameworks
- Bespoke thematic frameworks for complex topics (e.g. climate change, modern slavery, workplace culture, responsible AI)

ESG materiality and risk level
- Materiality assessment
- Industry assumptions and standards (e.g. SASB)
- Short, medium and long-term considerations
- ESG risk level and priority issues

Risk Management
- Actions including modelling, engagement, monitoring
- Reviewed incrementally by investment teams with support from ESG team

ESG risk level, priority issues and engagement objectives

Stewardship
- Engagement actions and priorities
- Proxy voting
- Leadership, research and knowledge sharing
- External reporting on activities

ESG integration examples

Company	Comments
BHP Financial modelling	We increased the provision for the Samarco remediation and settlement liabilities above BHP's reported estimates to account for additional costs from the UK class action. This adjustment followed conversations with company management and engagement with experts in the UK legal system.
Fortescue Metals Group Divestment	We divested our interest in Fortescue Metals Group in September 2023 due to governance concerns following material changes to the Executive team and Board. Since our divestment there has been further material changes to the leadership team at the company and we maintain our view that governance is a threat to the longer-term performance of the business.
Freeport McMoran Portfolio management	Before initiating a position in Freeport McMoran, we engaged with the company directly and met with research analysts, industry bodies and academics to shape our view of the ESG risks. We invested in Freeport but limited the position size to reflect the level of ESG risks and overall cyclicality within the industry.
Schneider Electric Financial modelling	Schneider Electric and other OEMs and distributors have been accused of anticompetitive behaviour in the French electrical market. We used a quantitative approach to test the potential implications by running earnings and cash flow sensitivities for different penalty levels (1-10% of turnover). We found the company is likely to absorb the penalty using the EUR 100 million set aside at the request of the French Competition Authority. We concluded the probability of a significant impact to earnings or cash flow was low and maintained the position.
Santos Portfolio management	We maintained an underweight position in Santos (and it was not held in some strategies) due to ongoing community and traditional owner risks related to its Barossa oil and gas development.
Tesla Divestment	We divested our interest in Tesla in November 2022 due to ongoing governance concerns, which we believe had been magnified due to Musk's purchase of, and subsequent managerial involvement in, Twitter (now X). Before divesting we completed a governance review to consider the investment implications of this change and determined a Level 4 risk was warranted. Our primary concerns were; potential share price impacts, CEO performance, reputation impacts, and the overall effectiveness of the Board of Directors. We completed another review of the company in September 2023 and maintained our Level 4 ESG risk level.
Trane Technologies Investment	An underlying driver of Trane's investment case is its offering of quality products that can improve the emissions footprint of the built environment. Trane creates Heating, Ventilation and Air Conditioning (HVAC) systems and refrigeration solutions and by designing energy efficient products, Trane has set target to reduce one gigaton (one billion metric tons) of carbon emissions from customers' footprint by 2030.

PILLAR 2

Stewardship and active engagement

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, where possible, 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.

We have a role to play in contributing to the responsible investment industry and actively participate in conferences and support thematic research. In 2023 we **presented at 19 ESG events, including conferences and webinars,** and published **10 research reports on emerging ESG and sustainability topics**. Alphinity made a submission in response to the Australian Government's discussion paper titled 'Safe and Responsible AI in Australia', outlining our views related to the risks and opportunities associated with AI technology and the role of regulation in supporting the responsible application of AI.

We are disciplined and focussed in our approach to stewardship. We therefore link our stewardship activities to our ESG Framework. This ensures that activities like engagement and proxy voting are focussed on the most material issues for each stock and are relevant to our view of each company. Our overall approach is outlined within our **Stewardship Policy**.

2023 Highlights

The main components of our stewardship approach are outlined below. The following pages in this section present our engagement activity through the 18-month reporting period, including key outcomes and collaborative engagement, alongside proxy voting insights and examples of escalation.

Engagement

209 dedicated ESG meetings with **137** companies over the 18-month reporting period

59% of meetings with ESG specialists or subject experts

Collaboration

Joined PRI Advance as lead investors for Freeport McMoran and support investors for BHP

Joined RIAA's Digital Technology and Human Rights working group

Proxy Voting

Voted on over **2200** resolutions

Voted against management **6%** of the time

Research and Thought Leadership

Partnership with CSIRO on Responsible AI

10 public ESG research reports, including deep dives on AI, the apparel supply chain, and antimicrobial resistance

Developing a nature framework

Continued to leverage our workplace culture framework

Escalation

7 formal written communications to Boards and/or management on ESG matters

Voted against the re-election of Directors based on climate change concerns

Engagement

Wherever possible, we aim to actively engage with companies in our investment portfolio and those under consideration for investment. We firmly believe that this approach provides us with a detailed understanding of ESG risks and opportunities and allows us to communicate our expectations to company management. We engage primarily through one-on-one meetings but also engage via small group meetings and collaborative engagements.

We also use engagement to support broader research into important and complex ESG and sustainability topics like workplace culture and human rights. This may also involve engagement with subject matter experts. A good example of this in 2023 was our Responsible Artificial Intelligence (AI) research with the CSIRO. A full case study of this project is presented on page 72.

A sample of the topics discussed and activities carried out over the past 18 months is set out below. A full list of ESG engagements is included in Appendix 1.

Engagement metrics

- 209 dedicated ESG meetings with 137 companies
- 53% of meetings with Australian companies | 47% of meetings with global companies
- 43% of meetings with ESG specialists. An additional 16% with subject experts
- 7 formal written ESG communications to Boards and/or management

ESG engagement insights

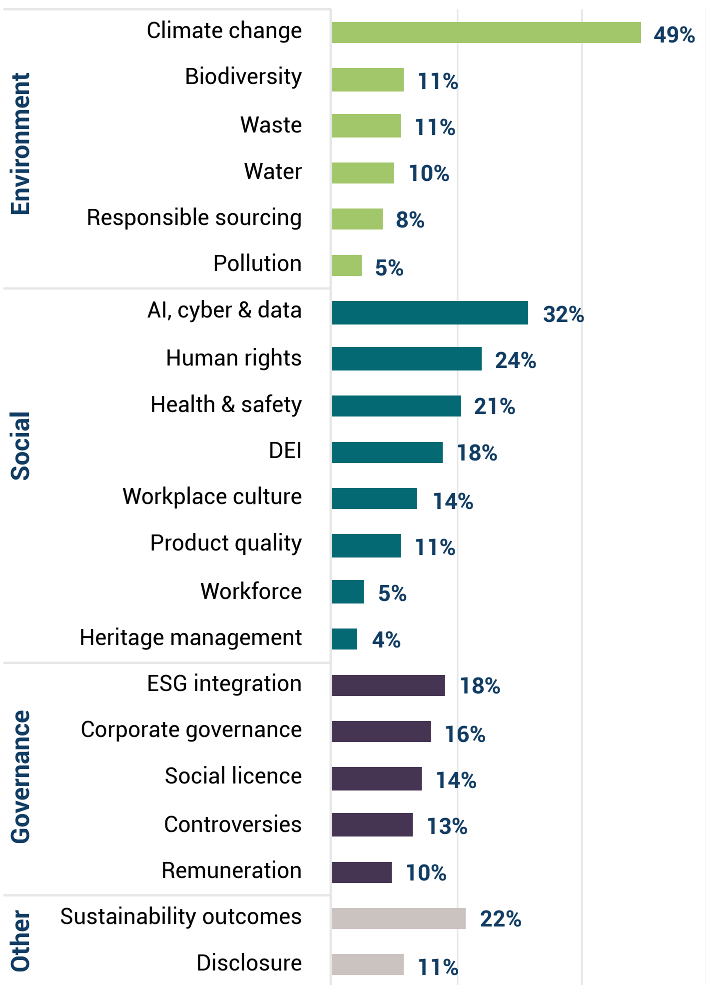
Our engagement priorities are continuously shaped by our views on current and emerging investment risks, as well as evolving ESG and sustainability thematics. Over the past 18 months we held 209 ESG meetings with 137 different companies, discussing a broad mix of environmental, social and governance topics. The most common topics were climate change, digital technology (AI, cyber & data management), modern slavery and health & safety.

With the growth in generative AI observed through 2023, and increasing focus on cybersecurity and data privacy risks, there has been a visible uplift of engagement touching on data and digital technology. We've also placed more emphasis on health & safety, particularly within Australian equities where fatalities and injuries have been a key concern. Climate change continues to be the most prevalent ESG topic as it is a material risk across our holdings, alongside modern slavery which also remains an important focus as well. A description of these topics and our engagement interests are provided in subsequent chapters of this report.

ESG engagement topics

This graph represents the frequency of different topics discussed within these meetings.

Proportion of ESG engagement discussing topic



Engaging with purpose

Our engagement agenda is informed by our ESG Framework and determined by the portfolio management and ESG teams together. We endeavour to have the appropriate member of the broader investment team attend ESG meetings as the insights gained feed back into our ESG risk assessment and can influence investment decision making.

While there is always a need for general ESG updates, our engagement often serves other purposes as well. These include: ESG or sustainability due diligence, specific ESG issue management within our portfolios, controversy management, research projects and collaborative engagement.

Collaborative engagement

We collaborate with other investors where we believe a coordinated voice will be more effective in achieving a positive outcome. Generally, when considering participation in collaborative engagements we look for alignment with our portfolio holdings and ESG priorities. We also consider the objectives of the engagement and whether we anticipate that it will create additional impact beyond our existing engagement activities with the company or companies.

We are involved in the following collaborative engagements and industry groups:

- **FAIRR:** We have continued our collaborative engagement with FAIRR on antimicrobial resistance, and saw pleasing progress to report with our investee company Zoetis Inc.
- **CA100+:** We are support investors for Walmart, Trane Technologies, Orica and Incitec Pivot.
- **PRI Advance:** We are participating members of the new PRI-led initiative on human rights and social issues. We are co-leads for the engagement with global mining company, Freeport McMoran, and support investors for Australian mining company, BHP. Both working groups have held direct engagement with company representatives and are in the process of shaping objectives.
- **RIAA's Digital Technology and Human Rights Working Group:** In 2023 we were invited to be part of this community of practice to share our knowledge of the responsible AI space and contribute to developing an Investor Toolkit on the human rights implications of digital technology.

2023 engagement outcomes

Engagement often operates on long timelines and can take many years. Nonetheless, we are proud to share examples of where our engagement with companies has influenced a positive change. It's important to acknowledge that while our efforts may have contributed to the outcomes listed below, they may not have been the driving influence.

Company	Engagement outcomes
Commonwealth Bank of Australia Climate change	We have held ongoing engagement with the Commonwealth Bank of Australia on its climate plan. In November 2022, we issued a letter to the Chairman of the Board regarding the application of the climate policy to oil, gas and metallurgical coal project financing. **Outcome:** In August 2023 the bank published its second climate report which included financed emissions targets for oil and gas, and metallurgical coal, and a commitment to roll out transition plans by January 2025.
Woolworths Health and nutrition	As part of Woolworth's 2025 Sustainability Plan it has a goal under the product pillar to 'materially increase healthier choices in our customer's basket'. We have engaged with the company to discuss how this goal can be expanded beyond Woolworths branded products to store design and customer education. **Outcome**: In June 2023 Woolworths announced that confectionary will be removed from checkouts and healthier options (3.5 health star rating or above) will be rolled out on the food aisle end caps. The company also confirmed that it had been making changes to its phone app so customers can see the 'healthiness' of their online shopping baskets.
CSL Donor health	CSL uses plasma in its biotherapies for rare and serious diseases including bleeding disorders and immunodeficiencies. The company relies on donations in most markets, however, the US regulatory environment is different as it permits payment to individuals donating plasma, and the frequency of donations can be over ten times per year. We view donor health and trust as an important ESG consideration for the company. It needs to be well managed to ensure the company's social licence and existing regulatory environment is maintained. We have engaged with CSL for more than two years on donor health in this market. **Outcome:** In 2023, CSL included the trust of plasma donors as a pillar within its social focus areas. The strategy is to focus on experience and wellbeing, including reducing adverse events and introducing a new collection system that ensure no more than 200ml of blood outside of the donor's body at one time.
Cleanaway Environmental disclosures	In the past Cleanaway has faced criticism and negative media related to its environmental management practices. In 2021 we established an engagement objective to encourage improved disclosure of environmental fines and penalties. **Outcome:** In 2022 Cleanaway began reporting the number of environmental notices, warnings, and fines and included two years' worth of data. In 2023, Cleanaway continued this reporting alongside further information on its environmental compliance management systems.
Zoetis Inc Antimicrobial Resistance	Since August 2022, we have engaged with Zoetis on three occasions to discuss the antimicrobial resistance (AMR) strategy and request further clarity on antibiotics sales. We have also advocated for a public animal welfare policy. Read more on this engagement on page 46. **Outcome:** In September 2023, Zoetis reported its antibiotic sales decreasing year-on-year (both as a percentage and in absolute terms for the past five years. The company also revised its AMR targets to focus on AMR stewardship, in comparison to the general goals around animal health in earlier years. Earlier in the year we were also pleased to note the release of Zoetis' animal welfare policy.
Albemarle Workplace culture	We assessed Albemarle against our Workplace Culture Framework and identified various gaps in disclosure. We communicated these in writing to the company, which included specific reference to no disclosure of engagement survey results. Read more on this engagement on page 52. **Outcome:** In June 2023, Albemarle reported its internal culture index score performed above 70% in 2022.
Keysight Responsible sourcing	We engaged Keysight across multiple meetings on responsible sourcing and how the company ensures environmental and social standards are in place through the supply chain. While the company conducted audits, we observed that the number and outcomes had not been disclosed. **Outcome:** Through the conversations we confirmed that a supplier questionnaire and audit program is in place. In May 2023, Keysight reported that seven formal audits on supplier sustainability practices were conducted in 2022.

Proxy voting

As an investment manager, Alphinity takes its ownership responsibilities seriously and believe the right to vote as a proxy for our investors is a valuable asset. Our primary objective when voting is to maximise the value of our clients' investments. Our overall approach to proxy voting is outlined within our **Stewardship Policy**.

The past 18 months saw us vote on over 2200 resolutions across our Australian and Global strategies. Of these, 93% were proposed by management and 7% were proposed by shareholders. Across all strategies:

- We voted on 100% of all proposals put to shareholders
- We voted against management 6% of the time
- We voted in favour of shareholder proposals 19% of the time

The votes exercised in FY23 are available on our website.

Our approach to shareholder resolutions

Shareholder resolutions can reflect important and emerging ESG topics. As such, we closely monitor the frequency and types of proposals. As appropriate, some components of shareholder proposals are integrated into our ESG analysis and engagement agendas.

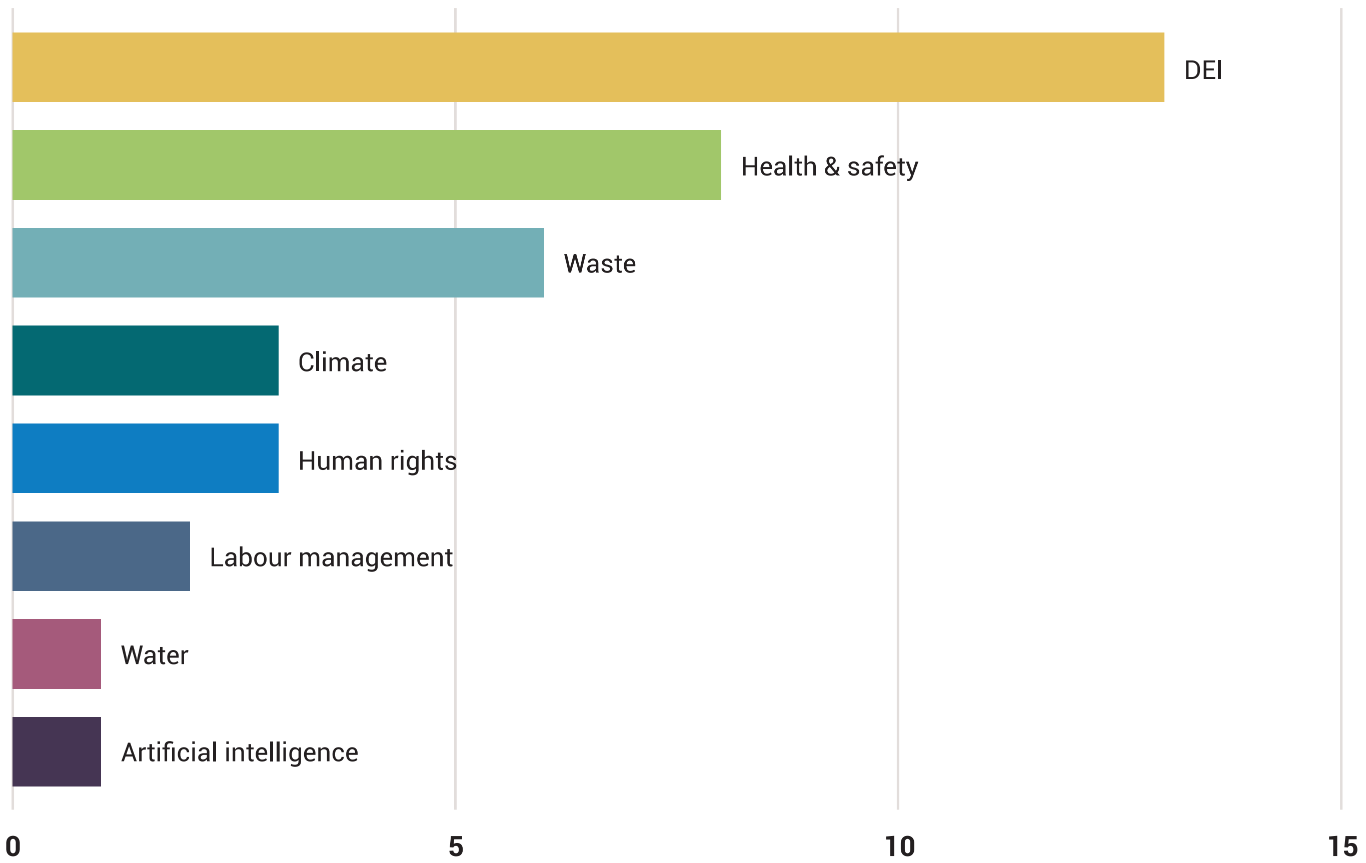
When considering our vote for shareholder proposals, we consider each proposal on its individual merit. We use proxy advisors, our internal ESG Framework, ESG engagement, and insights and research on specific issues, to inform our decision. Companies can also receive numerous shareholder proposals, and we take a balanced view on which we support and when. To vote in favour of a shareholder proposal we generally look for the following criteria:

- The effort required to implement the proposal reflects the materiality of the issue that has been raised
- The proposal is addressing a material ESG issue
- The proposal adds value to the business and has the potential to deliver material outcomes beyond existing company strategy or targets

Distribution of shareholder proposals voted across different ESG topics

This figure illustrates the distribution of shareholder proposals that we have voted across different ESG topics over the past 18 months. Our internal analysis shows that diversity, equity and inclusion (DEI) was the most common theme, followed by health and safety, and waste. We also saw an artificial intelligence resolution for the first time, calling for an investigation and report on AI-generated misinformation.

Global shareholder proposals



Proxy voting examples in the reporting period

Global

- **Nextera Energy:** At the 2023 AGM we voted in favour of a shareholder resolution which requested that the Board annually disclose its director skills matrix, particularly related to climate change and gender diversity.
- **PepsiCo:** At the 2023 AGM we voted in favour of a shareholder resolution requesting an independent Board Chair as we believe separating CEO and Chair is best practice and would benefit this company.
- **Tesla:** At the 2022 AGM we voted against the re-election of two directors on the nominating and compensation committees due to governance concerns around pledged stock and a family member on the Board.
- **Intuitive Surgical:** We voted in favour of a shareholder resolution requesting information on the gender pay gap. We believe this will support more effective disclosures on a material ESG issue. Such disclosure would be consistent with regulatory disclosure requirements in the UK, Australia and Canada.

Australia

- **Aristocrat Leisure:** We voted against the Remuneration Report due to concerns around capital allocation.
- **Pilbara Minerals:** We voted against approving unknown termination benefits in excess of 12 months base salary as we believe shareholders should retain the right to do so when the situation of employment is fully understood.
- **Qantas:** We voted against the re-election of non-executive director Todd Sampson as the series of controversies uncovered in 2023 had had a cumulative and significant impact on reputation and customers, and we believed the Board needed to be held accountable for these failings. We also voted against the remuneration report due to an insufficient reduction in incentives and the recovery plan pay out.

Escalation

Engagement is generally our first option for addressing an ESG issue with a company. Over time, if a specific ESG issue is not being resolved, we will consider various escalation options. This can take different forms:

Seeking further meetings with an individual more senior in the company

Raising concerns with the Board

Issuing formal written communication to the company

Voting against specific Directors or resolutions

Escalation examples in the reporting period

- **Otis:** Issued a letter to senior leadership outlining concerns related to ongoing fatalities and poor contractor safety management. This letter included specific asks, a comparison of peer disclosures, and was delivered after we had monitored and engaged the company for over two years. Read more detail on page 54.
- **Marsh & McLennan:** Ongoing engagement on decision-making for high-risk and sensitive projects. We escalated our concerns via a written email after multiple meetings with investor relations and senior management.
- **Worley:** Ongoing engagement regarding the classification of oil & gas within its sustainable revenue, which we then raised to the Board due to concerns of greenwashing risks.
- **Commonwealth Bank of Australia:** Issued a letter to the Chairman of the Board regarding the application of the climate policy on financing oil, gas and metallurgical coal projects in line with the Paris Agreement.
- **Qantas:** Issued a letter to the Chairman of the Board communicating our voting position at the AGM and reinforcing our expectations as shareholders to address the reputational damage, improve transparency and maintain social licence in 2024 and onwards.

Case study **Woodside Energy - Escalation**

- We **engaged with the Woodside leadership team** on the company's approach to plan for the low carbon transition and a new energy future. We communicated clearly that the company should actively consider the threats and opportunities the transition poses, and the role of Woodside in this transition. We consider this to be not only a requirement to maintain a strong social licence to operate, but a way of managing the systemic threat of climate change.
- At the 2022 AGM we **voted against the Climate Transition Action Plan** due to concerns that the strategy was too reliant on carbon offsets, did not adequately address scope 3 emissions, and had insufficient detail on the roadmap to the 2025 and 2030 emissions targets. We communicated our voting position to the management team, reinforcing that the new energy transition presents significant risks to the business. 49% of shareholders voted against this plan..
- To escalate our concerns at the 2023 AGM, we **voted against the re-election of long-standing director Ian Macfarlane**. This was on the basis that we believe introducing someone with stronger skills and background in new energy strategy on the Board, will support better longer terms outcomes for the business and will help position Woodside for the low carbon energy transition.
- In May 2023, we **issued a letter to the Chairman of the Board** outlining our concerns and rationale for the vote. We emphasised that Woodside's ongoing investment in new O&G projects, and lack of clear strategy to invest in and support the new energy transition presents significant risks in terms of social licence, regulatory action and penalties, loss of customer base, stranded assets, and loss of capital returns.
- **Looking ahead**, we have set out that we would like to see the Board and management team address two key objectives including a commitment that new energy will become a significant portion of fuel mix over time, in line with Woodside's commitment to support the low carbon transition, and second, to integrate stronger measures of climate action in Executive Remuneration and improve transparency of the sustainability component in the Corporate Scorecard.

PILLAR 3

Sustainable investing

Our sustainable strategies

Alphinity has two sustainable strategies, both of which are available to investors as either mandates or funds: the **Australian Sustainable Share Fund** and the **Global Sustainable Equity Fund**. These strategies aim to invest in companies that we believe have a net positive alignment with 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.

Of the 17 SDGs, the companies in our funds tend to support ten. These align to four important global thematics: Sustainable Cities, Inclusive Economies, Healthy Lives and Climate Action (see page 31 for company examples against the thematics).

The three SDGs that most commonly have negative alignment are SDG13 (Emissions intensive processes), SDG6 (Operations that require significant volumes of water) and SDG12 (Overall resource consumption and waste). The identification of the negative SDG components can provide a clear engagement agenda with companies to assess how these negative impacts are mitigated and addressed.

All SDG alignments for companies held in the 18-month reporting period (positive and negative alignment) are included in Appendix 2. A detailed outline of our approach and SDG alignment methodology can be found within our Sustainable Investing Factsheet.

Features of our sustainable strategies

Sustainability	ESG	Exclusions	Sustainable compliance committee	Stewardship	Alphinity investment process
An investable universe of companies that have a net positive alignment to one or more of the 17 SDGs	An investable universe of companies that exceed Alphinity's minimum ESG criteria Integration of ESG threats and opportunities into investment decisions	Hard exclusions for activities that are incongruent with the SDGs, defined by a formal charter	Oversight and governance by a Sustainable Compliance Committee, which includes two external experts, to ensure compliance with the strategy's charter and approve the investable universe	Active ownership including company engagement, proxy voting and thematic research	An established team with a disciplined process that finds high-quality businesses with strong earnings that are under appreciated by the market

2023 highlights

- 100% of holdings across our sustainable funds align to one of four SDGs; **SDG3, SDG8, SDG9, SDG11.**
- Continued bi-annual reviews of the portfolios' SDG alignment by the Sustainable Compliance Committee to ensure consistency across the SDG alignment of the strategies, validate the SDG alignment against the sector assumptions, and revise our methodology where necessary.
- Limited assurance performed over the SDG Alignment Framework and Carbon metrics for the second time. KPMG's limited assurance report is attached to this report.
- Comparative and thematic analysis to guide the assessment of grey areas or new topics, such as the implications of obesity drugs, antimicrobial resistance and the sustainability of paint.
- Reviewed Australia's progress towards achieving the SDGs to identify which goals were underperforming and inform our engagement agendas.

Answering difficult sustainability questions

There are always grey areas in sustainability and companies (or their industries) are rarely, if ever, perfect. Making decisions about sustainability requires judgement which can sometimes be complex and nuanced. We use the SDGs as a framework to systematically categorise and measure the sustainability of a company's product and services. However, there can still be cases where the nature and materiality of the SDG alignment is more challenging to determine.

Helping the ESG and broader investment teams work through these areas is one of the main functions of our **Sustainable Compliance Committee**. Having two external experts on the Committee, independent of the investment team, provides us with an impartial third-party viewpoint when contemplating the sustainability credentials of a particular company. The committee meets monthly and brings a range of perspectives to the debate, stimulating conversations about emerging trends, engagement focus areas and processes to enhance the SDG methodology to better reflect company progress towards or against the SDGs.

To work through these challenging areas we generally start from first principles and prepare a discussion paper for the Committee to debate and consider. These discussions can be centred around a specific company or focussed on a wider ESG or sustainability thematic.

Examples of issues discussed in 2023

- **Obesity drugs (SDG3):** We considered obesity as a disease, pricing and access to the drugs, misuse and marketing, and the real-life potential benefits of the drugs. We determined that obesity drugs can have a positive contribution to managing obesity, however strong ESG governance is required to ensure long-term benefits are realised.
- **Facial recognition (SDG16):** We reviewed the ethics of facial recognition software and where particular use cases may threaten the primary benefit of supporting community safety. We established that although facial recognition software is controversial, it is mainly due to the use cases and privacy risk, rather than because of the technology itself. Management of these risks therefore need to be assessed at a company level.
- **Responsible lending (SDG8):** We considered the alignment of financial institutions to SDG8: Decent Work and Economic Growth and what metrics can be measured to support this designation. We determined that the role financial institutions play in mobilising capital, supporting economic growth and creating stable and functioning capital markets is a critical function in a robust and equitable modern economy. This is a complex topic and is an area of ongoing research as we consider the most appropriate top-down framework to assess progress in this area.

SDG insights

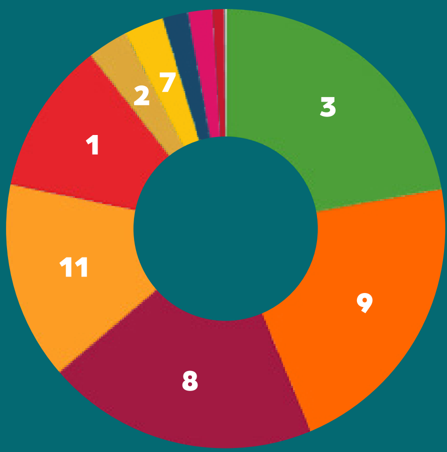
A range of SDG-related insights are presented on the following pages of this report. The graphs below show the SDG alignment characteristics for each sustainable strategy using a weighted methodology.[5] They illustrate that on average, both sustainable Funds had the highest overall contribution to SDG3, SDG8, SDG9 and SDG11.

SDG3: Health and well-being had the strongest overall alignment as a result of our investment in healthcare companies like CSL and Fisher and Paykel Healthcare. Costa Group and Woolworth's role in supporting healthy diets and nutrition is also reflected in this SDG.

The alignment to **SDG9: Industry, innovation and infrastructure** reflects the contribution of mining companies that provide transition metals such as lithium and copper, alongside iron ore, that remain at the core of industrialisation and the built environment. Service providers like Cleanaway and Transurban, and construction players like James Hardie, drive the alignment to **SDG11: Sustainable cities.**

The contribution of financial companies and technology service providers drive the alignment to **SDG8: Decent work and economic growth**. The alignment to **SDG1: No Poverty** is representative of companies that offer financial services such as retail lending to individuals.

Australian Sustainable Share Fund

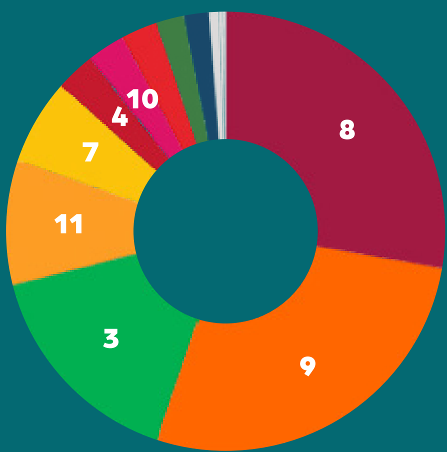


The strong alignment to **SDG8: Decent work and economic growth** is largely driven by technology service providers like Microsoft and Alphabet, enablers of advanced computing like ASML, and contributors to productivity like Accenture and Mercadolibre.

Global companies contribute towards **SDG9: Industry, innovation and infrastructure** by developing leading-edge technologies (Nvidia, Keysight) and facilitating industry and infrastructure (Linde, Trane Technologies). The alignment to **SDG3: Good health and well-being** is driven by healthcare equipment companies like Intuitive Surgical, Agilent and Danaher.

There has been more exposure this year to **SDG7: Affordable and clean energy** as a material contributor compared to FY22, reflecting our investment into renewable energy players like Nextera Energy Partners and Quanta Services. Waste management companies and semiconductor products that are components in electric vehicle drive the alignment to **SDG11: Sustainable Cities**.

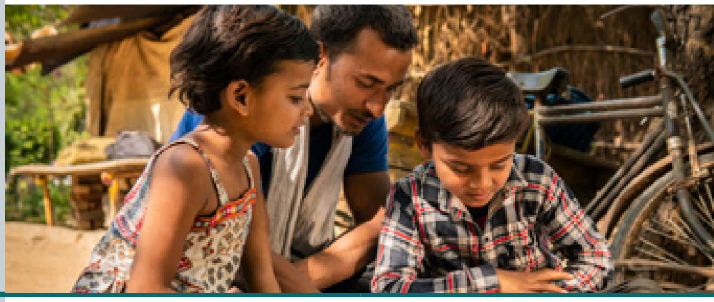
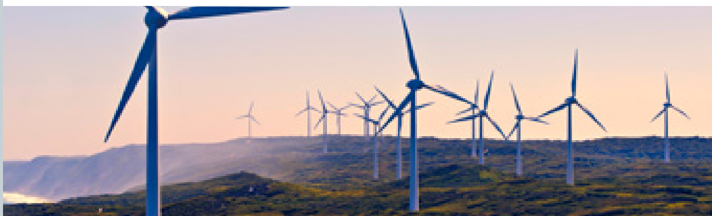
Global Sustainable Equity Fund



5 To reflect our sustainable investing activity over the 18-month period of this report, we used a weighted approach to SDG alignment rather than just using point-in-time company-level scores. To do this, we created composite portfolios for each Fund that included all companies held across the period and their average monthly holding weight. We then calculated a weighted net SDG alignment score by multiplying each company's positive/negative SDG alignment score by its average holding weight. This methodology upweights the SDG score of companies held at larger weights for longer periods compared to companies held at smaller weights for shorter periods.

What we look for

Top contributors in our funds*

Theme	SDG	Companies that	AUS	GLOBAL
Sustainable cities	9 Industry, innovation and infrastructure 11 Sustainable cities and communities	• Deliver infrastructure and other developments that support liveable cities • Integrate renewable energy into our energy systems • Offer water and waste management services • Facilitate safe and well-functioning transport systems • Innovate in technology, science and research to support advanced industrial manufacturing, through digitisation and electrification	BHP, Goodman Group, Iluka Resources, Transurban, Suncorp 	ASML, Schneider Electric, Onsemi, Waste Connections, Otis, Nextera Energy Partners
Inclusive economies	1 No poverty 8 Decent work and economic growth 10 Reduced inequalities	• Offer financial services, especially lending in underbanked markets • Support the digital economy and globalisation through advanced technology, cloud, e-commerce, logistics and semiconductors • Improve employment opportunities, especially for minority groups • Enhance access to the internet	CBA, NAB, Westpac, Wesfarmers, Lifestyle Communities, Qantas, Telstra 	Mercadolibre, ING, DBS, Microsoft, Chubb, ASML, AirBNB, Alphabet
Healthy lives	3 Good health and well-being 4 Quality education	• Treat disease, offer healthcare services like insurance, and improve nutritional value • Provide healthy and nutritious food • Improve access and quality of education, or facilitate better learning through hearing and eye products	Woolworths, Costa Group, Bubs Australia, CSL, Medibank, Lifestyle Communities, Cochlear, Wesfarmers, Technology One 	Zoetis, Chubb, Advanced Drainage Systems, Intuitive Surgical, Procter & Gamble, Essilor Luxottica, Microsoft, Alphabet
Climate action	7 Affordable and clean energy 13 Climate action	• Innovate in low-carbon solutions including electric transport, renewable energy and battery storage. • Mine critical minerals such as lithium, copper, nickel and iron ore • Provide energy that power our cities and economy	BHP, Pilbara Minerals, IGO, Fortescue Metals 	Nextera Energy Partners, Schneider Electric, Samsung SDI

* Contributors are defined as the top three companies that positively align to each relevant SDG, using the weighted approach specified on Page 31, through the reporting period.

MercadoLibre | Democratising e-commerce and finance in Latin America (SDG8, SDG10)

MercadoLibre's mission is to democratise e-commerce and digital finance, creating marketplace income, promoting financial inclusion and expanding means of payment for many people in Latin America who are poorly banked. A 2022 survey found MercadoLibre was the main source of income for 900 000 families and also provided opportunities for more than 480 000 SMEs, of which 65% are family businesses. 30% of Mercado Pago users said it was the first non-cash payment method they had used, enabling access to online services that were previously restricted to individuals with credit or debit cards.

Waste Connections | Managing waste and growing the green methane market (SDG11, SDG7)

The collection and processing of waste is a valuable social and environmental service, which also provides additional green benefits through recycling and Renewable Natural Gas (RNG). Waste Connections operates 79 recycling facilities in the US and recycled over two million tons of material in 2022. Its pursuit of green methane is impressive, with the company investing US$200 million into new RNG production facilities. This has the dual benefit of emissions reduction and resource recovery, and is also expected to generate US$200 million in incremental EBITDA by 2026.

Transurban | Building safe and efficient road infrastructure (SDG11)

From the design of assets to research and education programs that promote safe driving practices, Transurban is committed to making roads safer for its users. The company's dedication to safety is reflected in its Road Injury Crash Index, which remains within its target, achieving a performance of 3.8 serious injury crashes per 100 million vehicle kilometres travelled. Further, by selecting Transurban roads over alternate stop-start routes, drivers can save an average of 27% in emissions.

Brambles | Growing circular economy and responsible timber sourcing (SDG8, SDG9)

Brambles is an Australian logistics business that facilitates the 'sharing and reuse' of the world's largest pool of reusable pallets and containers. Brambles has a regenerative vision and is pursuing 100% sustainable sourcing of timber. It is working to transform forestry markets to increase visibility and improve sustainable practices, with an ultimate goal to enable the growth of two trees for every tree used.

IGO | Specialising in lithium production in a sustainable manner (SDG7, SDG9)

IGO is an Australian mining company with a strategic focus on transition metals, namely lithium and nickel. Both are key enablers of the net zero transition, supporting the full potential of renewable energy to be realised, and are promising if mined responsibly. IGO's Nova Operations can impressively run on 100% renewable energy for extended periods during the summer and spring. Its Cosmos Project has initiated studies that show an 80% renewable energy penetration rate. The company prides itself in continuing to test alternative energy storage solutions to work towards its 2035 net zero target.

Cochlear | Empowering people through hearing devices (SDG3, SDG4)

Cochlear has been the global leader in implantable hearing solutions, providing a range of implants and sound processor upgrades that deliver a lifetime of better hearing outcomes. The company's cochlear and acoustic implants have helped more than 650 000 people to hear, of which 44 000 were treated in FY23. In July 2023, new research found that after wearing hearing aids for three years, cognitive decline slowed by 48% for older adults with mild to moderate hearing loss.

Quanta Services | Tackling the impacts of weather events on energy systems (SDG7, SDG13)

Quanta provide engineering, project management and construction services to energy sectors including wind, solar, energy storage, transmission, distribution, and EV charging. The company plays a pivotal role in both helping to accelerate the transition and manage the impact of weather-related events on energy infrastructure. The company installed over 4.5GW of solar and wind capacity in 2022. Extreme weather events are increasing weather-related power outages across the US, and Quanta spent over 800 000 hours restoring power services in response to major storms in 2022.

Intuitive Surgical | Innovating in robotic medtech solutions (SDG3, SDG9)

Intuitive is focused on improving human health and healthcare through innovations in outcomes-focused, minimally invasive, robotic surgical products. The company is an industry leader in robotic surgery having performed over 12 million procedures with their da Vinci system since it was introduced in 2000. There are over 7,500 da Vinci systems in hospitals in 70 countries.

Nextera Energy Partners | Accelerating green electricity in US energy grids (SDG7, SDG13)

NextEra Energy Partners own interests in approximately 6,640 megawatts (MW) of wind, 1,530 MW of solar and 90 MW of battery storage Over the past eight years, the company has significantly expanded the renewable energy portfolio from approximately 1,000 MW at the time of the IPO to approximately 8,260 MW of renewable energy capacity as of June 30, 2022. In 2021, the renewable portfolio generated enough zero emissions electricity to power ~1.9 million homes for one year.

TechnologyOne | Creating software to enhance education systems (SDG4, SDG8)

Over 1,300 leading corporations, government agencies, local councils and universities are powered by TechnologyOne's software. The company's workflow capabilities enables students, academics, administrators and partners to connect through the one application, which can improve student experiences and lower operational costs for universities.

Advanced Drainage Systems | Repurposing plastic waste for use in pipes (SDG9, SDG12)

As the largest plastic recycling company in the US, Advanced Drainage repurposes waste and environmentally sustainable piping products. The company's industry-leading resin blending programs convert this recycled plastic into pipe, chambers and other products that can support stormwater management and even agricultural irrigation. Advanced Drainage have set a goal to use 1 billion pounds of recycled material annually by 2032, of which 600 million pounds was used in 2022.

Microsoft | Responsible AI advocate and innovation leader

Microsoft has a history of developing innovative products and services across a wide range of technologies, including operating systems (Windows), productivity software (Microsoft Office) and cloud (Azure). As both a supplier of AI technology and a company that uses AI to run its business, Microsoft's vision is to empower transformation and unlock access to AI technology globally. The company has established itself as a strong proponent for responsible AI, designating responsibility to individuals, committees and having a clear risk management approach to sensitive use cases. Read more on this case study on page 73.

Case study

Insights from the 2023 UN PRI Conference in Tokyo

More than 5000 investors worldwide are now signatories to the Principles for Responsible Investment (PRI), as Alphinity has been since 2011. In October, our ESG Analyst, Moana Nottage, had the privilege of attending her first PRI conference which took place in Tokyo, Japan.

Under the theme, "Moving from Commitments to Action", the conference covered a lot of ground in just two and a half days. Japan's commitment to net zero and renewed emphasis placed upon human capital, innovation and gender diversity served as a positive signal for Asia Pacific's ESG ambition. Complementing the main panels were side events that brought together 1,400 delegates from more than 50 countries to explore the growing array of topics we must consider as responsible investors. Special academic break-out sessions invited scholars to present cutting-edge research that fostered debate and offered investors a chance to explore their studies and provide feedback. From physical climate risk and nature to intergenerational equity and human rights, there were four key takeaways from the event (see **here** for the full report).

Four key takeaways from the 2023 UN PRI Conference

INSIGHT 1	INSIGHT 2	INSIGHT 3	INSIGHT 4
Japan's ambition in sustainability and responsible investment In December 2022, TCFD disclosures were made compulsory for listed Japanese companies. Standardised human capital and diversity reporting is expected in 2024.	**Looking beyond energy in the climate change conversation, and into nature** There was consistent emphasis on the roles of biodiversity, environmental health and sustainable agriculture as tools to achieve net zero by 2050.	**Physical climate risk to accelerate in the face of a slow transition** With global emissions still rising, the focus on adaptive capacity and proper planning for weather-related risks was a key theme.	**Challenges in Asia's net zero transition and ensuring interregional equity** As the largest regional emitter of greenhouse gases globally, Asia demands urgent policy and innovation in order to achieve net zero, particularly within the energy and industrial sectors.

PILLAR 3

Thematics

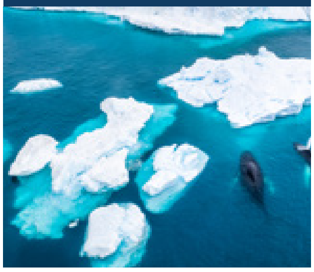
This section of the report summarises seven material ESG themes and 24 issues that are analysed within our ESG Framework. These themes and issues highlight the wide range of ESG topics that we manage across our portfolios.

Under each theme, we have presented key highlights for 2023, engagement priorities, example measures and case studies.

We recognise that there is some overlap between the issues across the different themes (for example, climate change and nature). However, in reality, our ESG integration and research activities often cut across a range of issues. This dynamic is evident in the case studies presented throughout this part of the report.

Seven material ESG themes and 24 issues

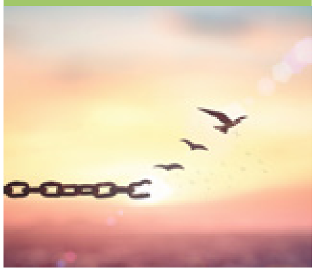
Climate change
- Physical risk
- Transition risk



Nature
- Biodiversity
- Water use
- Waste
- Pollution

Workforce
- Labour management
- Workforce health and safety
- Diversity, equity and inclusion
- Psychosocial safety and culture

Modern slavery
- Supply chain
- Operations
- Application of products and services



Reputation and social licence
- ESG leadership
- Ethics
- Stakeholder impact
- Controversy exposure

Digital technology
- Cyber crime
- Data privacy
- Artificial intelligence

Sustainability governance
- Leadership awareness and capability
- ESG-linked remuneration
- Sustainability strategy
- Sustainability disclosures

Climate Change

Physical risk | Transition risk

Alphinity acknowledges the findings of the Intergovernmental Panel on Climate Change and supports the United Nations Paris Agreement to limit global warming to well below 2°C by 2050 and transition the economy to net zero.

Managing climate change risks and engaging with our portfolio companies on net zero ambitions has been a high priority within our responsible investment approach for many years. Our **Climate Change Statement** includes an overview of the actions we take to manage climate risks within our portfolios. These include risk analysis, benchmarking, stewardship and integration into investment considerations. We address the key recommendations of the Task Force on Climate-Related Disclosures (TCFD) across strategy, governance, risk management, and metrics and targets within this statement.

The risks of climate change can be divided into two categories: physical and transition risks. Physical risks refer to the impacts of weather events, such as fires, storms, and floods, whereas transition risks result from policy action taken to transition the economy away from fossil fuels and towards net zero. Both aspects of climate change risk (threats and opportunities) are incorporated into our ESG Framework and are outlined in this section of the report.

Alphinity is pleased to announce that it has become a signatory to the Net Zero Asset Managers Initiative (NZAM). NZAM is an international group of asset managers committed to supporting the goal of net zero by 2050.

By becoming a signatory under this initiative, we are demonstrating our support for net zero by 2050. This initiative will include establishing climate change targets by the end of 2024 for a portion of our funds under management. We recognise that any such commitment must be supported with robust goals that are in our clients' best interests and which will not compromise our fiduciary responsibility to maximise risk-adjusted returns.

We invest in companies supporting the low carbon transition

While there is growing pressure to reduce carbon emissions, without investing in solutions the world will not achieve its net zero ambition. We consider opportunities brought by the transition that may benefit as tailwinds to companies in our portfolios. Examples of opportunities within our portfolios include:

- **Demand for sustainable products and services:** Companies can enable, and benefit from, the net zero transition by strategically considering business opportunities in energy efficient, low-carbon and green alternatives. This includes renewable energy and energy storage solutions.
- **The role of transition metals in decarbonisation:** Transition metals, particularly those like lithium, copper and nickel, are essential catalysts in green energy storage and electrification. The Australian strategies generally have higher exposure to these themes than our global strategies, given the size of the domestic mining industry.

2023 highlights

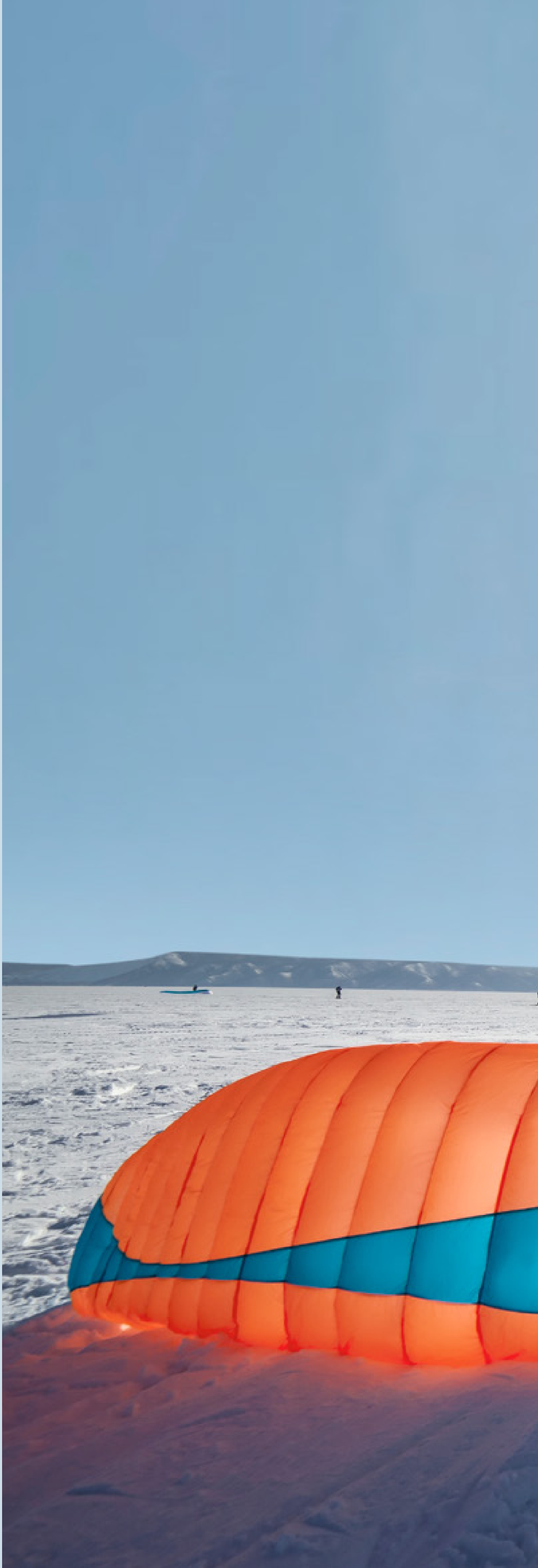
- **103 climate change engagements**
  We regularly engage with companies on climate change to evaluate risks, understand management practices, influence outcomes and promote enhanced disclosures. Out of 209 ESG meetings held during the 18-month period, 103 (49%) specifically addressed climate change. This was the most commonly discussed ESG topic in 2023.

- **Exploring the Just Transition on Australia's east coast**
  In August 2022 our Head of ESG and Sustainability visited the Newcastle region to meet with key stakeholders and discuss how the closure of thermal coal mines will impact the community and local economy. She heard perspectives from NGOs who advocate for better workforce outcomes, the Port of Newcastle which is the largest coal port in Australia, Northern Mining and NSW Energy Union representatives, and local industrial manufacturers who want to see the region become a place for new energy investment. This visit informed our view on workforce challenges and opportunities in the energy transition. We published an article that articulated our perspectives regarding BHP's Mt Arthur mine and the just transition **(BHP Spotlight: 2030 Mt. Arthur closure)**.

- **Emissions forecasting completed for two strategies**
  Using company emissions reduction targets and projected revenues, we estimated the emissions intensity of two Alphinity strategies for the year 2030. This exercise provided valuable insights into the transition risk of our portfolios and is an important building block for a larger scenario analysis project in 2024 that will support our NZAM commitment and a key TCFD component.

- **Climate Action 100+**
  We remain engaged as support investors for two Australian companies (Orica and Incitec Pivot) and joined in 2023 as support investors for two global companies (Trane Technologies and Walmart). Since being involved in engagement with Orica and Incitec Pivot for the past four years, we have been pleased with the overall dialogue, net zero commitments and stronger short-term reduction targets set by both companies. Transparency on climate lobbying and continued investment into future low carbon solutions will be the focus for both companies going into 2024.

- **Maintained assurance of the financed emissions metrics presented in this report**
  Recognising the importance of the accuracy of our financed emissions data, for the second year in a row we have we have achieved assurance over our carbon metrics presented in this report. KPMG's limited assurance report can be found on page 92.



Our approach to managing climate risk

Risk analysis	Benchmarking	Carbon metrics	Stewardship	Investment case considerations
We consider climate-related threats and opportunities as part of our fundamental approach to ESG management Transition and physical risks are integrated into our ESG Framework We exclude thermal coal producers from all strategies, subject to a 10% revenue threshold	We use the CA100+ framework to assess company-specific climate change strategies We complete portfolio-wide assessments on climate change risk and mitigation	We measure the carbon intensity and footprints of our portfolios to identify large emissions contributors, and regularly report these to our clients	We encourage companies to reduce emissions and improve their strategy, targets and disclosure We track progress against engagement objectives and report outcomes We participate in collaborative initiatives (CA100+) We take climate-related resolutions seriously and escalate concerns through voting where appropriate	We invest in companies supporting the low carbon transition and consider climate change factors in the investment case

Note: We exclude fossil fuel producers and companies that generate energy using fossil fuels from our sustainable strategies and funds (10% revenue threshold for the Australian Sustainable Share Fund and 5% for the Global Sustainable Equity Fund)

Carbon offsets

We recognise that some companies face immediate challenges in emissions reduction and need to use carbon offsets as a key component of their climate strategy. Over time, we expect technological solutions and new energy, such as green hydrogen, will assist these companies to achieve further emissions reduction, however it is likely that a portion of emissions will still need to be offset. As such, we have established some clear expectations for companies related to offsets:

Our expectations for companies that need to use offsets are:

- Use evidence to show that the emissions reduction strategy is aligned with the net zero hierarchy, therefore prioritising emissions reduction and replacement before offsets
- Establish a clear policy or position that specifies how the quality of carbon offsets is assured
- Nature based offsets with social co-benefits should be prioritised where practical
- Seek local and high-quality carbon offsets and consider schemes that offer genuine co-benefits
- Disclose the balance between international and local carbon offsets that are purchased

	Transition Risk	Physical risk
2023 observations and engagement	**Climate change is well recognised as a systemic risk. The focus on climate action and reducing global emissions continued to gain momentum and increase in materiality in 2023.** At COP28, the commitment to phase out fossil fuels by 2050 emphasised the global push towards achieving net zero. 2023 saw the emergence of more national carbon commitments, as well as mandatory climate change reporting introduced in some jurisdictions. There is growing consensus that every company has a responsibility to address climate change and as such, most companies are expected to establish carbon targets and measure emissions. Attention also landed on managing both upstream and downstream scope 3 emissions. Investment in research and development emerged as a priority for emissions intensive and hard-to-abate sectors. Technological shifts are essential in areas of the economy where climate solutions are not yet cost effective or scalable, like industrials, mining and agriculture. **Engagement priorities:** • Scope 1, scope 2 and scope 3 emissions reduction and measurement • Supporting the supply chain in decarbonisation efforts • Research and investment into climate solutions • Scenario analysis outcomes and future resilience • Transition plan for fossil fuels, and fossil fuel feedstock • Implications (positive and negative) of climate change regulation • Carbon offsets policy	**The materiality of this issue has remained similar in 2023.** There was slightly more emphasis on climate adaptation measures, particularly as 2023 saw record high global temperatures. The industries with the highest exposure (positive and/or negative) included insurers, food retailers and manufacturers, and infrastructure providers such as telcos and energy utilities. Despite the focus on climate change and the relative maturity in the transition risk space, the overall level of disclosure of physical climate risks and scenario analysis outcomes remains low. **Engagement priorities:** • Supply chain resilience, especially for companies with exposed commodities such as agriculture • Water and drought resilience for high consumers of water such as mining and semiconductors • Accuracy of pricing models with insurers and their role in improving climate resilience for customers
Example measures	Scope 1, 2 and 3 emissions (absolute and intensity); emissions reduction commitments; volume of carbon offsets purchased; investment in low carbon solutions	Business coverage subject to scenario testing (including supply chain); operations or supply chains in regions of high physical climate risk

Financed emissions

We use a range of carbon-related metrics across our portfolios to help assess the overall carbon exposure, sector or company level risks, and progress towards net zero. These metrics are useful indicators of a portfolio's potential exposure to transition risks such as policy intervention or changing consumer behaviour. The calculation for these financed emissions metrics is in line with the TCFD recommendations.[6]

Group-level financed emissions

Alphinity manages a range of different investment strategies that, when combined, are a measure of Alphinity's group-level financed emissions. Over the past 18-months, Alphinity's group-level carbon intensity (tCO2e/$USm revenue) nearly halved, decreasing from 222 to 122 between 31 July 2022 and 31 December 2023. This observation is driven by a decrease in the carbon intensity of certain underlying funds (see fund-level financed emissions analysis below).

The FY22 and FY21 financed emissions for the Alphinity group as well as Alphinity's underlying strategies are presented in Appendix 4.

Total financed emissions (scope 1 and 2)	
Weighted average carbon intensity	122 tonnes CO2e/$USm revenue
Total carbon emissions	1 250 785 tonnes CO2e
Carbon footprint	70 tonnes CO2e/$USm invested

Source: Alphinity, Sustainalytics as at 31 December 2023

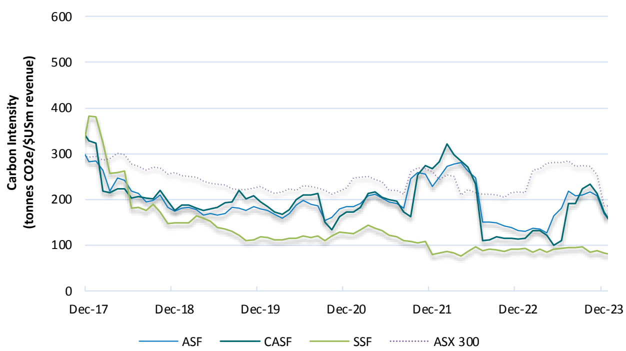
Fund-level financed emissions

The exclusion of fossil fuel producers and energy companies that generate electricity from fossil fuels from the two sustainable funds[7] contributes to their emissions intensity being well below that of our other strategies. The large weighting to the energy, metals and mining sectors in the Australian market contributes to the domestic portfolios and ASX300 benchmark having a higher carbon intensity than the global portfolios and the MSCI World Index.

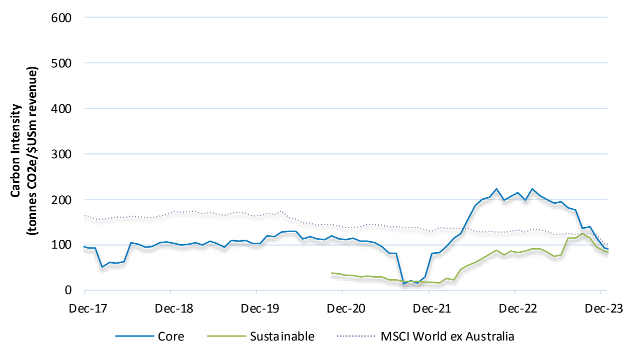
Fund-level financed emissions (scope 1 and 2)	Weighted carbon intensity (tonnes CO2e/$USm revenue)
Domestic	
Australian Share Fund	169
Concentrated Australian Share Fund	173
Australian Sustainable Share Fund	84
Global	
Global Equity Share Fund	93
Global Sustainable Equity Share Fund	86

Source: Alphinity, Sustainalytics as at 31 December 2023

Alphinity Australian Funds Carbon Intensity



Alphinity Global Funds Carbon Intensity



6 We calculate all three metrics using portfolio weights and Sustainalytics data (monthly scope 1 and 2 emissions, market capitalisation, revenue). Bloomberg and company disclosures have been used occasionally where appropriate, for example, in the case of missing or outdated data. Supporting information on the adopted methodology can be found in the TCFD's Supplemental Guidance for the Financial Sector.

7 Our sustainable fund charters (Domestic Sustainable Share Fund, Global Sustainable Fund) define the scope of our fossil fuel exclusions.

- **Australian core and concentrated funds:** The fall in emissions intensity in July 2022 was a result of progressively decreasing the position size of high emitters such as Rio Tinto, BHP and South 32. The increase in emissions intensity seen between May and July 2023 was primarily driven by our investment into AGL.
- **Global Equity Share Fund:** The fall in emissions intensity in 2023 was largely driven by decreasing and ultimately selling out of Nextera Energy in September 2023. Selling out of OnSemi through 2023 also contributed. The addition of Linde in May 2023 is a noteworthy carbon contributor. However, Nextera Energy's emissions intensity is more than double that of Linde's so portfolio-level carbon intensity still decreased through 2023. Further information on our engagement activities with Linde are included later in this section.
- **Global Sustainable Equity Fund:** Waste Connections emits carbon from the landfill it operates, and while the company achieved a 16% decrease in absolute emissions between 2021 and 2022 as a result of successful landfill gas capture, the company was one of the largest carbon contributors in the Fund. Linde and OnSemi were also material carbon contributors, of which our steady decrease in these positions resulted in a lower carbon intensity towards the end of 2023.

Engaging with companies on climate change

Climate change and emissions reduction was the most commonly discussed topic through our ESG engagements in 2023. This has been consistent since we started tracking our ESG engagements in 2020. This is because of the systemic nature of climate risk and the role that every company needs to play to reach net zero by 2050.

Examples of our engagement with companies in 2023 include:

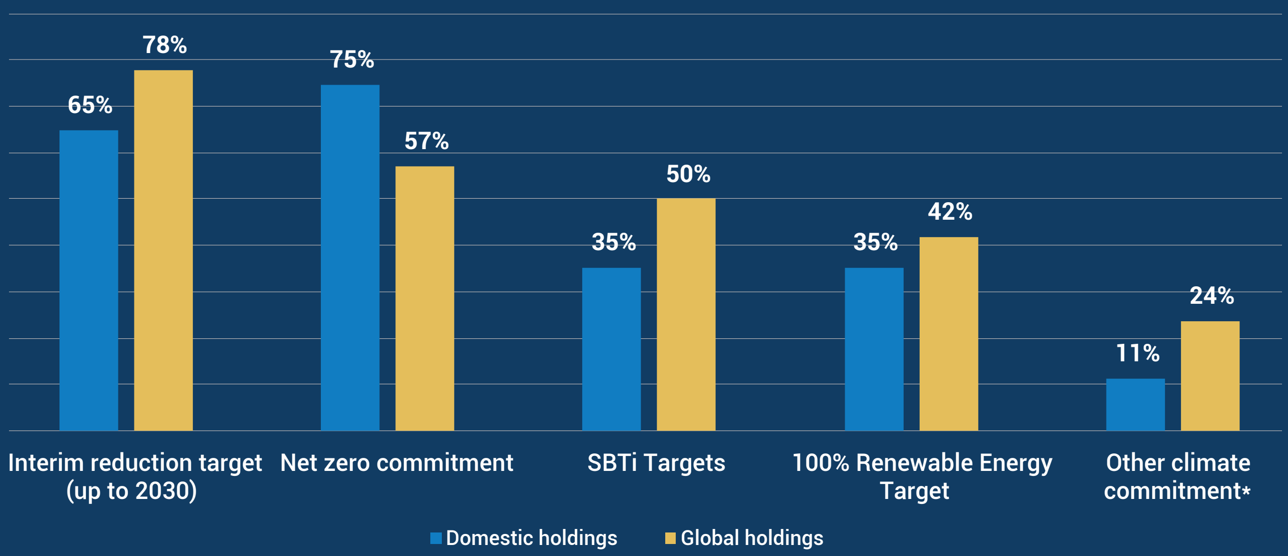
- **BHP:** Engaged with senior management as part of a site tour to the West Australian Iron Ore Business. A big focus of the site tour was on decarbonisation and the electrification of equipment and vehicles.
- **Chubb:** Chubb faces both significant risks and opportunities from physical climate risk through its underwriting activities. We engaged to better understand the impacts of changing weather to the business, and to explore opportunities in client partnership to support emissions reduction and physical climate adaptation and resilience.
- **Linde:** As a large carbon contributor in our funds, we have held multiple discussions with the company throughout 2023 to monitor progress on emissions reduction and investment into new energy, particularly in relation to green hydrogen.
- **Macquarie Bank:** Dedicated briefing with the green investment group to understand priorities in future facing areas such as carbon capture, nature-based solutions and artificial intelligence as an enabler of climate action.
- **Telstra:** Engaged with the sustainability team to provide feedback on Telstra's carbon offset strategy.
- **Quanta Services:** Confirmed strategic positioning in the energy transition to support renewable electricity development, and improve adaptation and resilience against weather-related impacts.
- **Woodside Energy:** Ongoing engagement with the CEO and Board to encourage a stronger position and strategy for the net zero energy transition.
- **Australian Banks:** There is growing pressure for the Australian banks to deliver on their net zero commitments and reduce the climate change impacts of their lending and financing activity. Key areas of engagement in 2023 include financed emissions targets, the rigour of transition plan assessments and the size of fossil fuel lending or financing.

We have engaged with all top five carbon contributors in each fund. Additional information for their climate progress is presented in Appendix 4.

Reviewing the carbon commitment of our Australian and global holdings

In addition to ongoing reviews of individual company climate strategies, we systematically assess all carbon commitments across our holdings annually. This assessment is based on stated company commitments in public disclosures. This process enables the investment team to gain deeper insights into the level of ambition in carbon reduction targets and to track the positioning of our portfolios over time. The performance of our combined domestic and global holdings[10] against five different climate change commitments is below.

Percentage of holdings with climate change commitments



*Commitments other than Net Zero includes Carbon Neutral, Carbon Negative and Real Zero

INSIGHT 1

Across our holdings, we observed 66% had explicitly committed to net zero. In addition, another 17% published an alternative carbon commitment such as carbon neutral, carbon positive or real zero targets. In other words, 119 companies of the 143 analysed had a long-term carbon commitment in place.[11]

INSIGHT 2

We acknowledge that many of long-term commitments are for 2050 and beyond, so there is still a journey ahead before a net zero future can be realised. However, we maintain that the spirit of setting a long-term commitment will ultimately drive short and medium-term action. This observation was supported as our analysis found 71% of companies had also set interim targets, 75% of companies provided a public TCFD report and 43% had an established Science Based Target.

INSIGHT 3

This year, we introduced a new metric focusing on renewable energy, revealing that closer to half (38%) of the companies had commitments to procure 100% renewable energy.

INSIGHT 4

Although a comparison to the previous year (FY22) is not a like-for-like comparison due to the changes in equity portfolios, we observed positive trends across three key metrics: commitments to net zero (or similar), TCFD reporting and interim targets have all shown year-on-year increases.

[10] Holdings over the past 18-month reporting period.

[11] Climate change commitments are analysed from FY22 and FY23 company disclosures (documents available prior to January 2024) and from the Science Based Targets initiative. This analysis is reflective of all companies held in the 18-month reporting period. This analysis does not represent our view on the quality of commitments. We recognise that commitments can sometimes exclude material emissions such as Scope 3 emissions.

Case study

Understanding supplier challenges with corporate decarbonisation commitments | Insights from our apparel tour to Bangladesh

We place high value on the insights we gain from ESG and sustainability field trips and incorporate these into our engagement with investee companies. This case study summarises a key insight from an apparel supply chain tour to Bangladesh. By speaking to garment suppliers in Bangladesh and Vietnam directly, we learnt that companies pushing decarbonisation in the supply chain often do not support the factories in their efforts. We will be exploring this dynamic within our climate and human rights engagement in 2024.

Pressure has been building for companies to set targets or goals to manage emissions in their supply chain. Although we consider supply chain ESG commitments a good practice, a negative hidden consequence in the apparel industry was revealed on a field trip to the garment factories in Bangladesh and Vietnam. The decarbonisation cost is often shouldered by factory owners. In these developing markets, we learnt that two characteristics of the garment industry exacerbate this problem:

1. **Prices are low**: Large brands often leverage their market share to negotiate discounts while still expecting better ESG performance of suppliers, in line with their scope 3 commitments.
2. **Contracts are short-term and variable:** The oversupply of factories in these markets, paired with the short fashion cycle, creates an extremely variable contract setting. Contracts can be as short as six weeks long and subject to cancellations and short lead times.

Suppliers in developing markets are faced with pressure to decarbonise their operations but are not necessarily paid more to do so or ensured contracts into the future. It can be expected that this problem applies across many where upstream emissions targets are imposed on suppliers.

Case study

Assessing the impact of physical climate change | Freeport McMoran

Physical climate risks are often diversified across assets and are generally viewed as longer-term risks. However, there are some cases where a company's most important assets are highly exposed to adverse weather events in the short-term. This case study summarises our assessment of climate change risk for Freeport McMoran.

Issue: Physical climate risk was identified as a material issue for Freeport McMoran. The company's Grasberg copper mine, in Indonesia, is susceptible to extreme weather due to its situation in mountainous terrain experiencing some of the highest rainfall in the world.

Action: Through the ESG due diligence process, we identified that climate risk could result in significant operational disruptions and repair costs. We determined the time horizon of this risk to be immediate given the extreme variability of weather at the asset. Grasberg is also a significant asset for Freeport given that it contributes more than a third of the company's revenues. Consequently, we assessed this risk as high compared to other companies where physical climate risk is generally less immediate and more diversified across different assets.

Outcome: As a result of this analysis, physical climate risk was a material environmental factor that was considered as part of Freeport's final internal risk level and the subsequent decision to limit the position size within our portfolios. It is worth noting that position sizing also reflected other investment and ESG considerations, not only physical climate risk. Subsequently, in February 2023, a landslide due to heavy rainfall at Grasberg halted production for two and a half weeks. While Freeport's track record in managing weather-related incidents at Grasberg is strong, we believe that physical climate exposure is heightened for this company, and consequently this risk was reflected in our portfolio management practices.

We also continued to engage with the company on a regular basis to monitor developments at Grasberg including related management policies and practices.

Nature

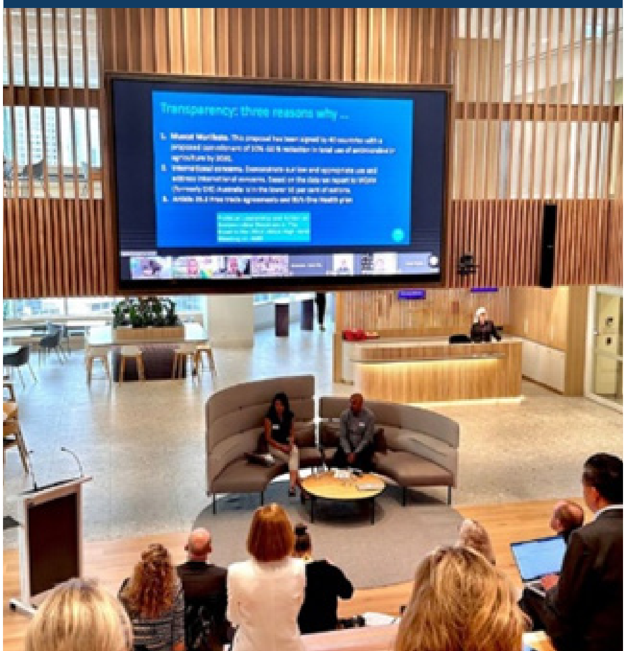
Biodiversity | Water use | Waste | Pollution

Within our ESG Framework, nature is assessed through five core, interlinking elements including climate change, biodiversity, water use, waste and pollution. For each element, we consider both dependencies and impacts when assessing the overall materiality of the issue for companies. We also consider potential risks related to nature impacts embedded in the supply chain. In our view, this risk component is one of the most complex areas when assessing nature. As is the case with human rights, risks can be embedded at any tier along the supply chain and can be difficult for companies to oversee and influence.

For simplicity, climate change has been reported as a separate thematic in this report. This nature section includes detail on the four other elements: biodiversity, water use, waste and pollution.

Investor session on Antimicrobial Resistance (AMR) with Hesta, Woolworths and Alphinity

In 2023 we collaborated with industry super fund Hesta to host an in-person investor session on AMR, with more than 30 attendees at the event. The session was delivered in the Hesta offices in Melbourne and included representatives from Woolworths and CSIRO in a panel discussion. As part of the session, Woolworths highlighted its recently published AMR policy. To work through these challenging areas we generally start from first principles and prepare a discussion paper for the Committee to debate and consider. These discussions can be centred around a specific company or focussed on a wider ESG or sustainability thematic.



2023 highlights

- **Responding to the Task force on Nature related Financial Disclosures (TNFD) recommendations**
  In 2023 we worked with an external partner to update our approach to assessing nature. Although nature elements were already part of our ESG Framework, the release of the TNFD recommendations highlighted some gaps in our approach. In response, we have developed a proprietary nature framework for three key industries. More information is presented in the case study below.
- **The Ocean Business Leaders' Summit**
  We were invited to attend the Ocean Business Leaders' Summit, facilitated by the Ocean Decade Australia in Sydney. The summit brought together business leaders for panel sessions and workshops to contribute to an industry white paper that was published in July 2023. As part of this summit, we participated in a workshop to provide feedback on the opportunities and barriers of offshore wind. Participation in this summit also helped us to better understand the complexities of water based indigenous heritage which has informed our engagement with Australian energy and mining companies.
- **Antimicrobial resistance (AMR)**
  We have been involved in an extensive collaborative initiative with FAIRR since 2021 that strives for greater disclosure over the ways in which animal pharmaceutical companies are addressing the risk of AMR. Antimicrobials have ecosystem impacts that can disturb soil and plant health, reduce soil microbial diversity, and spread resistant disease into wild populations. We believe the growing focus on nature and biodiversity as investment risks in 2024 is likely to elevate the awareness of related AMR risks as the impacts of antibiotic-intensive agriculture and aquaculture practices on adjacent ecosystems are better understood. We provide an example of research and engagement on this topic below.
- **Indonesia Palm Oil site tour**
  In 2022 our Head of ESG and Sustainability undertook a research trip to Indonesia to learn more about palm oil management practices within the region. The primary purpose of the trip was to better understand the palm oil supply chain, the different uses of palm oil and its by-products, and associated risks for companies that we hold across our portfolios. We also wanted to get a better sense of the nature and human rights risks faced by workers and companies involved in plantation management. Insights gained from this site visit have directly informed our discussions with companies where timber sourcing is relevant.

Nature snapshot

	Biodiversity	Water use	Waste	Pollution
2023 observations and engagement	**Biodiversity loss is a threat to the ecosystems that our economy depends on. The release of the TNFD recommendations in 2023 increased the focus on biodiversity.** The combination of industry and regulator focus, along with greater awareness of biodiversity impacts, and supply chain risks, has increased the visibility of this issue. We have been especially focussed on AMR as a key threat to biodiversity and have engaged with companies and the investment community to raise awareness. **Engagement priorities:** • Regenerative agriculture opportunity and uptake in food production • Opportunities for investment in nature and biodiversity resilience • Remediation • Board understanding and awareness of biodiversity and nature thematic • AMR risks and opportunities • TNFD readiness	**With the changing climate, focus on nature, and rising costs of natural resources, there was an overall increase in the materiality of water as a key ESG issue in 2023.** Companies operating in water-sensitive regions should follow a hierarchy to reduce, replace, reuse and recycle in order to manage their supply risks. Water has been raised as an important community issue in 2023, especially for miners, and has been linked to human rights for some companies within our portfolios. **Engagement priorities:** • Water reuse and recycling opportunities • Embedded water use in supply chains and risks (e.g. semiconductor industry) • Community views on water as a resource and engagement • Managing water risks in supply chains • Water efficiency of products when used (e.g. personal care products)	**The materiality of this issue has remained similar in 2023.** Waste, especially plastic waste, is a growing concern globally. The move towards a more circular economy aims to shift the focus on waste away from disposal and towards reuse and recycling. The spotlight was on plastics and how companies within the plastic value chain can drive increased use of recycled plastic content or alternatives such as paper or bioplastics. The challenges in recycling infrastructure were brought to light in Australia with the failure of a soft plastics take back program, which is a widespread global issue. **Engagement priorities:** • Challenges and opportunities to increase the use of recycled plastic content in products • Strategy to shift from fossil feedstocks into bio-based materials, including working with suppliers • Waste takeback options for retail	**The materiality of this issue has remained similar in 2023.** There has been some community activism related to environmental concerns that has maintained the importance of this issue. We see pollution as particularly important for companies in the industrial and mining sectors, as we have seen that liability can extend or materialise in future years. **Engagement priorities:** • Improved disclosure related to environmental fines, penalties, and pollution events • Managing pollution risks in supply chains • Certification and staff training
Example measures	Operations located near biodiversity sensitive regions; endangered species impacted by operations	Water used, reused, and recycled; operations located in water stressed regions	Tonnes of waste to landfill; waste recycled and reused; use of recycled content (such as packaging)	Number and size of environmental fines, sites/ assets with ISO14001 certification

Case study

Establishing clear engagement objectives to strengthen the management of deforestation risks | Brambles

We view the risk of deforestation as a material reputational and regulatory consideration for Brambles and it has influenced our view on the overall ESG risk profile of the business. In 2022, we established an engagement objective to encourage the company to improve its oversight and auditing practices for the timber supply chain. This case study presents a summary of the issue and our engagement activities.

Issue summary: A key ESG issue for Brambles is related to timber sourcing and deforestation risk. Brambles has a firmly-stated position to source 100% sustainable timber. The company uses third party certification schemes such as the Forest Stewardship Council (FSC) to verify the sustainability of its timber suppliers. During our site visit to Indonesian palm oil plantations, we discovered that the FSC does not always conduct on the ground audits of certified plantations.

There is significant risk to Brambles if firstly, the FSC certification is no longer viewed as an appropriate program or, secondly, if issues are identified in plantations within their supply chains. While this issue is not an immediate risk to the investment case, we view this as a material longer term risk to the business.

Engagement Objective: We initiated an engagement objective in December 2022 to encourage Brambles to improve its oversight of the certified timber sourcing program using audits or similar.

Status: We have engaged with the company three times in the past 12 months to discuss this issue. This engagement objective is ongoing, however so far the company has confirmed that it has initiated a review of its high-risk timber sourcing regions and are planning to use audits in the future. The company has also confirmed that it has begun working more closely with the FSC to positively influence the program.

Case study

Mitigating Antimicrobial Resistance (AMR) through ongoing engagement | Zoetis Inc

This case study presents a summary of our engagement with Zoetis since 2021 on AMR. Over our two-year ownership period we are pleased that Zoetis has reduced its antibiotics portfolio, established its position as an AMR leader, and enhanced its overall AMR strategy. Alongside specific metrics and measurable targets in relation to AMR, we are focussing our 2024 engagement on antimicrobial residue in water discharges and Zoetis' strategy to improve AMR awareness for those prescribing and applying antibiotics.

Introduction: In early 2021, we identified AMR as an emerging research area within the pharmaceutical industry. By joining the FAIRR initiative that year, we aimed to expand our understanding of the issue and advocate for greater transparency and responsible antimicrobial use within the sector. This case study delves into our engagement with Zoetis Inc (Zoetis), a US-based animal health company, to assess and address its AMR exposure. In August 2023, we published a research report on the systemic risks of AMR and the financial implications to key sectors.

Engagement objectives: We actively engaged with Zoetis to:

- Assess its exposure to the risk of AMR
- Advocate for improved transparency in disclosures and greater accountability for AMR risks within the business strategy
- Encourage Zoetis to adopt specific metrics and measurable targets related to AMR stewardship

Monitor progress and provide feedback on areas for improvement

Engagement outcomes:

- Zoetis has decreased its revenue from livestock antibiotics each year since 2018, reporting this in both percentage and absolute terms in its latest (2022) disclosures. In our view, this demonstrates the company's commitment to AMR stewardship and continuous improvement in the space.
- The company has introduced targets related to the responsible use of antibiotics. This marks an improvement from its 2021 targets, which centred on animal health without explicit reference to antibiotics and AMR stewardship.

Next steps: While we are pleased with the progress made by Zoetis, we have suggested that its management consider incorporating specific metrics and measurable targets in relation to AMR. For investors, this would strengthen confidence that the AMR strategy is being executed and provide clarity on the short-term priorities for the business. Another area of interest is the monitoring of active pharmaceutical ingredients in water discharges, along with oversight around the downstream application of antibiotics. This is particularly important in emerging markets where awareness and regulation surrounding AMR is often less stringent.

Case study

Benchmarking best practice supply chain management using engagement | Starbucks

We engage with companies to inform our ESG risk analysis, encourage better ESG outcomes, and to benchmark leaders. This case study presents a summary of an engagement with Starbucks which was initially set up to support our ESG risk analysis but also enabled us to identify some best practices in managing supply chain risk.

In 2023 we completed a number of specific engagements related to nature in supply chains. A highlight from this series was a one-on-one meeting with Starbucks to discuss the Coffee and Farmer Equity (C.A.F.E) practices program. This program was one of the coffee industry's first set of ethical sourcing standards when it launched in 2004. As one of the largest procurers of coffee globally, we requested a meeting with company representatives and learn about their management practices for human rights and nature related risks. We met with its VP of Coffee Sustainability and Engagement.

Examples of key learnings:

- **C.A.F.E practices program is designed to support better social and environmental outcomes over the longer term.** This program was developed in partnership with Conservation International and is a verification program that measures farms against environmental, social and economic criteria. Along with human rights, a key priority of this program is resource management and protecting biodiversity. For example, there is zero tolerance for conversion of natural forest to agricultural production and use of prohibited pesticides. On the call, they also noted that the program helps Starbucks identify where investment and support is needed—it is not just a tick box certification program.
- **Delivering social and environmental outcomes across complex agricultural supply chains takes many years to achieve and requires 'wrap around support' for farmers.** Starbucks has been applying its C.A.F.E practices for two decades. It funds farmer support centres and runs regular audits to identify areas where further support is needed. The company also works closely with NGOs in the regions where non-conformance issues are most common.
- **Using an independent organisation to measure progress and outcomes supports the overall integrity of the program.** The C.A.F.E practices program measures outcomes across 200 indicators. Conservation International completes an impact assessment of the program and the outcomes are presented in a semi-annual report.

Developing our nature framework

With the TNFD guidance published in early September 2023, we have developed a proprietary nature framework for three key industries that, in our view, have highly material dependencies and impacts on nature: Metals and Mining, Oil and Gas, and Food Production, Manufacturing and Retail. The framework has been designed around the five TNFD Impact Drivers and identifies risk categories, mitigation practices, opportunities and metrics that are fit for purpose to us as investors. The goal is to identify companies with potential immediate risks and companies with potential longer-term risks associated with nature. We will then develop actions plans which may include further analysis, financial modelling, or focussed engagement.

An example of the way in which we consider nature-related risks and material issues for the food value chain is illustrated below. We have identified that the impact drivers and risk categories are relevant across all players in the chain. However, the size and scale of the impact or dependency (i.e. materiality) will vary depending on the specifics of each company and positioning within the value chain.

The market is in its infancy when it comes to identifying and reporting nature-based risks so we expect engagement and encouraging disclosure will be the main priority in 2024-2025.

Why this project matters:

The TNFD recommendations offer guidance and a framework to identify and assess nature related financial impacts, however we feel that a bespoke approach is needed to translate the guidance into something practical that we can use as part of our ESG processes.

Animal Welfare as an enabler for improved nature outcomes

Animal farming is an essential part of the food production system and is core to many regions' economies. Our view is that farming practices which protects animal welfare also generally mitigates nature-based risks linked to mass agricultural practices. For example, reduced-density farming which improves animal welfare also better maintains soil health.

In Australia and Europe, ethical animal farming practices have progressed, reducing the incidence of things such as caged chickens, the use of growth hormones and sow stalls. Unfortunately, due to lack of regulation, education and resources, there are many parts of the world in which ethical animal farming is still in its infancy. Across our 2023 holdings, this issue is generally most relevant for food retailers and supermarkets. In all cases, we encourage companies to have a public animal welfare statement or policy, to integrate farming practices and animal welfare in any sourcing guidelines, and to report appropriate metrics. Where ethical farming is not standard practice, companies should make reasonable efforts to provide consumers with ethical choices (for example, cage free eggs as an option) and work with suppliers to improve practices.

Nature considerations for companies across the food value chain

Direct impacts and influence ⟷ System impacts and influence		
Food production	**Food manufacturing**	**Retail**
Food producers tend to have more direct exposure to nature-related risks and therefore can also directly influence resilience. For example, a food producer which is highly dependent on one commodity is also highly exposed to nature-related shocks and stresses.	Food manufacturing is a very broad sector and often overlaps with production and retail. The type and extent of nature-related risks can therefore be both direct and system-wide, depending on the business.	Food retailers generally have more diversified supply chains and are better positioned to manage nature-related risks. They are also best positioned to influence the food value chain and strengthen resilience. Although retailers are generally able to manage short-term disruptions to food supply chains, long-term shortages and shifts in production can have a system level impact and significantly affect retailers' financial performance.

TNFD Impact Drivers

Alphinity nature risk categories

Drivers of nature change

Land, freshwater & ocean use change

Deforestation: The clearing and alteration of land for agriculture and horticulture through deforestation, wetland draining, or land reclamation can lead to habitat loss, degradation and disturbance.

Land management: Poor farming practices, such as monoculture and overgrazing, can lead to soil erosion, reducing soil quality and long-term productivity.

Freshwater and ocean management: Poor farming practices, such as over fertilising (which impacts the water table) or low-quality soil management (which leads to erosion of landforms and the introduction of particulates into waterways), affect freshwater and marine ecosystems.

Resource use & replenishment

Water consumption: Access to water is critical for most agricultural operations. Withdrawals can impact ecosystem services and biodiversity value of adjacent environments.

Aquatic resources: Fish and other aquatic species harvested from the wild can disrupt food pyramids and impact the overall health, function and balance within marine and freshwater systems.

Climate change

Physical climate risks: Weather-related events such as fire, drought, persistent rainfall and increased temperature present a range of potential business impacts.

Transition risk: Livestock production is a significant contributor to global emissions. Natural ecosystems and the ocean serve as important carbon sinks.

Pollution & pollution removal

Water and waste discharge: Water and soil pollution is contributed to by the use and discharge of pesticides, herbicides, fertilisers and poor animal waste management.

Air quality: Dust and airborne pollutants can be generated from field operations and use of older combustion engines. The severity of airborne particulate matter can be exacerbated by poor soil management practices.

Packaging: Food packaging, especially plastics, has led to pollution in the environment and causes harm to wildlife when ingested.

Workforce

Labour management | Workforce health and safety (WHS) | Diversity, equity and inclusion (DEI) | Psychosocial safety and culture

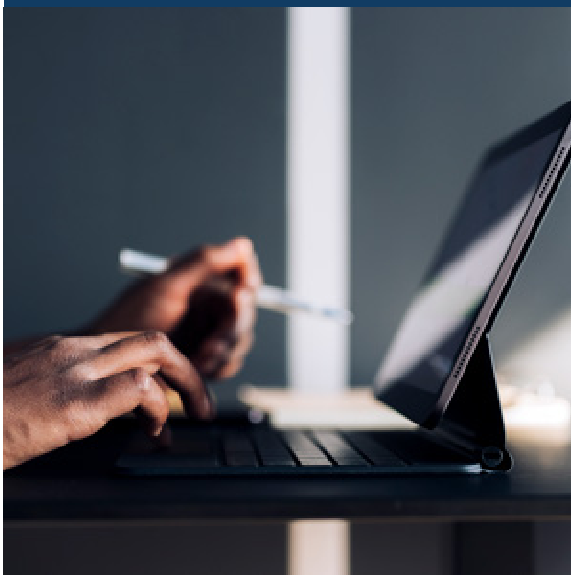
A company's workforce is one of its most valuable assets. A good employee value proposition should include the promise of a safe and inclusive work environment, fair and equitable pay and leave arrangements, and sufficient benefits that support reduced turnover and enhanced employee satisfaction.

Since the onset of COVID19, many companies have struggled with labour shortages, higher turnover rates, diminishing safety performance, increased labour costs and ongoing industrial action from employees covered under collective bargaining agreements. This trend has continued to emphasise the need for businesses to increase the focus on workforce value, recruiting and retaining key staff, and maintaining a strong social licence to operate.

This is a material issue for the vast majority of companies in our portfolios. Depending on the company, the specific risks and opportunities within workforces vary. Within our ESG Framework we have identified four key elements under the Social pillar that help us assess workforce-related risks and opportunities; labour management, health and safety, diversity equity and inclusion, and psychosocial safety and culture. Further information on each element is outlined below.

Engaging with our clients

In April 2022 we conducted an ESG client webinar which covered three key ESG topics, including the gender pay gap. We defined pay gap, provided an overview of new reporting legislation, and presented a status update for the ASX100 which showed that only 13% reported a gender pay gap at that time.



2023 highlights

- **Ongoing commitment to the 40:40 Vision Initiative**
  In 2021 we committed to the 40:40 Vision Initiative which is an initiative led by HESTA, supported by industry partners, to pursue diversity in executive leadership in ASX300 companies. Through 2023 we continued our participation including ongoing company engagement on diversity at the group executive level.

- **Increased engagement in response to the growing number of fatalities across the ASX**
  During the 2023 reporting period we noted a significant increase in the number of fatalities across ASX listed companies especially within sectors such as mining, oil and gas, industrials, and consumer. In response we:

  - Completed a review of historical health and safety metrics and executive remuneration structures for any of our existing holdings plus any company within the ASX200 that had experienced a fatality in the past 24 months.
  - Added health and safety as a specific engagement item for upcoming meetings with Directors or Executives of companies in relevant sectors or where metrics indicated a growing risk.
  - Published a report on our findings and views on engagement priorities to help reduce the health and safety risks moving forward.

- **Continued work to analyse psychosocial safety risk and workplace culture**
  In 2022, following the reports of sexual harassment, bullying and racism in the mining sector, 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. We also published a report including our framework for assessing workplace culture from the outside in. In 2023:

  - We embedded this framework within our ESG assessments and continued to engage with Australian and global companies such as Rio Tinto, Albemarle, and BHP on the topic.
  - We joined the PRI Advance collaborative engagement on human rights which aims to advance human rights and positive outcomes for people through investor stewardship. Through this program, investors decide on priority objectives for each company depending on which human rights issues are the most relevant. We are support investors on the PRI's BHP engagement and, with the rest of the group, decided that psychosocial safety and safety for women in particular was a priority human rights issue for the company.
  - We contributed to a joint investor-led report titled 'Workplace misconduct, the underestimated systemic implications for investors'. This report has been endorsed by Elizabeth Broderick of Elizabeth Broderick & Co who completed the external review of workplace culture at Rio Tinto.

Workforce snapshot

	Labour management	Workforce health and safety (WHS)	Diversity Equity and Inclusion (DEI)	Psychosocial safety and culture
2023 observations and engagement	**In 2023, this issue increased in relevance across most sectors.** Since COVID19 many companies have experienced ongoing challenges with labour recruitment and retention. We increased our overall engagement in relation to employee satisfaction and included turnover and engagement scores as a key metric that we assess as part of our ESG assessments. **Engagement priorities:** • The approach to an employee value proposition which includes the measurement of engagement and satisfaction • Engagement with unions and approach to negotiations • The just transition • Frequency of and actions resulting from employee engagement surveys	**The overall materiality of WHS has increased across sectors such as mining, industrials and consumer.** Since COVID19, there has been an overall increase in the number of fatalities and a decrease in performance against standard health and safety metrics. This has been a very important engagement focus throughout 2023 and will continue into 2024. We also prioritised safety discussions with Executive leadership and Directors as part of more general management meetings. These discussions focussed on creating a strong safety culture, metrics and integration into remuneration. **Engagement priorities:** • Health and safety metrics and improving transparency on LEAD indicators such as near miss incidents, staff training • Including contractors as 'employees' for all health and safety management practices • Integrating safety metrics into Executive compensation structures	**DEI continued to be an important topic across most sectors throughout 2023.** This year the focus remained on gender equality and gender pay gap reporting. With the Voice Referendum in Australia, greater focus has also been placed on indigenous people and inclusion. There were a number of political issues which increased the focus on inclusion for companies that operate in the US. Examples include the 'Black Lives Matter' movement and the introduction of anti-abortion legislation in some US states. With all of these matters, we maintain a balanced view regarding an organisation's responsibility to engage in social issues that extend beyond its direct workforce. **Engagement priorities:** • The 2023 Australian Indigenous Voice referendum and the company's approach to engaging employees on the topic • Gender diversity across Board, Executive/Senior Management and all employees • Gender pay gap measurement and reporting • Organisational responsibility to advocate for key social issues	**We have seen the materiality of this issue increase significantly, especially for Australian listed companies, with legislative changes that require employers to more closely manage risks related to psychosocial safety.** Globally, we have also noted an increase in investor focus on workplace culture and employee retention. We completed the integration of our workplace culture framework within our ESG assessments. This is currently applied to energy, mining and high-risk industrial companies. We plan to extend this to other sectors in future. **Engagement priorities:** • Improving disclosure and reporting • Preparedness for Australian legislation • Awareness within global mining companies of issues raised in Australia • Appropriate metrics to measure culture, disclosure and links to Executive remuneration
Example measures	Turnover rate; employee engagement survey outcomes; workforce covered by EBAs	Total recordable incident frequency rate; number of fatalities; number of high-risk potential incidents	Female representation at Board, Executive/Senior Leadership, and workforce; gender pay gap; indigenous representation	Psychosocial safety measures in engagement survey; number of complaints and incidents

Case study

Implementing our culture framework to assess psychosocial safety risks | Albemarle

Although Albemarle has not been involved in any material controversies related to sexual harassment or bullying, we still consider this a risk area for the business due to the overall risk exposure for the mining sector. Using public disclosures and insights from engagement, we completed an assessment using our Workplace Culture Framework. This case study presents the outcomes of our analysis with key recommendations for Albemarle to improve its management and disclosure of the issue.

Introduction: Albemarle is an American specialty chemicals manufacturing company based in Charlotte, North Carolina. It operates three divisions (lithium, bromine specialties, catalysts) and engages in brine-based mining activity, processing and distribution. We have identified the mining and industrial sectors as a high-priority for research and engagement on psychosocial risks management, especially related to harassment, discrimination, and bullying. We therefore initiated a review to identify specific risk areas, gaps in reporting, and objectives for future engagement if relevant.

Our review: We conducted a targeted review and engagement with the company in March 2023 to assess psychosocial safety using our Workplace Culture framework. From our analysis, Albemarle scored in the lowest quartile compared to the other companies in the mining and industrial sectors. We found however, that this was largely due to lack of disclosures rather than concerning performance and we were able to reflect this in our assessment. A summary of our analysis is presented below.

Strong governance		Safe and inclusive operating environment				Engaged employees	
Board oversight and policies	Incentive structure	Safe operating environment	Speak up culture	Diversity, equity and inclusion	Training and awareness	Employee engagement	Employee retention
• Code of conduct policy and internal reporting • Reporting of complaints to senior management • No disclosures on company level risk management or Board oversight • No culture related review for the organisation	• No psychosocial or employee component linked in Executive compensation • Further, there is no information on how people metrics are assessed through incentive structures	• Appropriate reporting on safety metrics. Inclusion of lead metrics would strengthen disclosures • Safety record is improving year on year • Operating camps are alcohol free	• Speak up metric measures the number of violations against the Code of Conduct per 100 employees • For 2021, the rate was 1.2, down from 1.3 in 2020. This equates to roughly 60 reports across the year • No breakdown of specific incidents	• Good overall diversity and inclusion programs • 22% female representation • Developing DEI targets	• No training program for psychosocial safety (focus exists for DEI) • No mention of psychosocial safety through public documents or website	• Employee engagement survey • No disclosure of engagement scores	• Reports data on employee turnover by region, gender and age • Decreased the gap between female/male turnover • Do not disclose absentee rates

Source: Company disclosures (2021 reporting) and direct engagement (2023)

Next steps

We have communicated the outcomes from this assessment in writing to the company, which included specific reference to engagement survey results. In June 2023, Albemarle reported its internal culture index score performed above 70% in 2022 which serves as a performance benchmark that investors can question in future years. We will continue to engage with the company on this issue.

Case study

Escalating our engagement Psychosocial safety and culture | Rio Tinto

Rio Tinto published its Respect at Work Report in 2022. Since then, it has taken good early steps to identify and manage risks associated with psychosocial safety and culture, however, there are still ongoing reports of issues within the organisation. This year we have escalated our engagement through a small group collaboration, contribution to a joint report which has been endorsed by Elizabeth Broderick, and our ongoing engagement with the Board. This case study is a summary of our collaborative engagement and escalation of the issue to the Board.

Since early in 2022 we have been engaging with Rio Tinto to address its issues related to psychosocial safety and workplace culture (see page 51 of our 2022 ESG and Sustainability Report).

In 2023, we collaborated with our peer, Fidelity International, industry fund Hesta and state government authority VFMC to contribute to a joint report titled '**Workplace misconduct, the underestimated systemic implications for investors**'. As part of this collaboration, we participated in a meeting with the Rio Tinto Chair of the Remuneration Committee to discuss the company's 2023 Remuneration Report and the proposed changes for the 2024 period. As a group, we requested that Rio Tinto include a specific culture metric within its Executive Remuneration by at least 2025. Separately, we also suggested that the Board consider including a gate for the people component linked to severe cases of assault (sexual or other). The goal of this was to increase visibility over severe cases of assault and strengthen overall accountability. Our feedback has been formalised in a letter and provided directly to the Board. We will continue to engage with the company throughout 2024 on this matter.

Case study

Escalating our engagement on the health and safety of contractors | Otis

While we appreciate there are challenges in collecting contractor safety metrics in large and global workforces, companies have a responsibility to ensure all types of employees are safe at work and should be held accountable for fatalities that occur. Since early 2020 we have been engaging with Otis to encourage improved reporting of contractor safety metrics and reduce the number of fatalities which occur across its workforce. This year we escalated our views in a letter to Management. This case study presents a summary of the issue and our engagement.

Introduction: Otis Worldwide is a leading elevator and escalator manufacturing, installation and service company. Otis operates globally and has a growing presence in the Asia Pacific region. In 2023, 44% of employees were situated in Asia.

Since early in 2020, we have met with Otis management several times to discuss health and safety as we had identified the workforce structure as a potential risk driver. Following initial dialogue with the company, we began an engagement objective outlining the need for Otis to disclose contractor health and safety metrics and strengthen the strategy to eliminate ongoing fatalities, in line with the company's stated zero harm goal.

Engagement: We established an engagement objective in 2021 and had a specific meeting with two senior managers on the ESG council. We encouraged Otis to set health and safety targets that underpin the broader zero harm goal and consider publicly disclosing contractor safety metrics. At the time, we gained comfort around Otis's focus on safety because we understood that leading indicators and targets to support the zero-harm goal were being considered. Internal metrics to address contractor safety were also being evaluated for public disclosure. We were also pleased to hear of a potential ESG component in Executive Remuneration that may be extended to include safety.

Escalation: Unfortunately, during FY23 Otis reported three fatalities. After a follow up meeting to specifically discuss the fatalities and assess progress the company had made to collect contractor metrics, we issued a letter formalising our concern. We communicated that we had gained little clarity on how the risk of fatalities was being addressed and what changes have been introduced to better manage this ongoing issue. We specified three actions that should be considered by management:

- Introduce interim safety targets to support the broader zero harm goal;
- Commit to disclosing more detail on the contractor safety metrics and strategy; and
- Establish and communicate clear responsibility and accountability from Executive management in regards to safety and fatality mitigation.

We also invited Otis to consider integrating safety performance into Executive Remuneration, which is a common structure amongst peers. The company was receptive to our feedback and confirmed that these suggestions, as well as the peer safety disclosure comparison we provided, have been passed on to members of the ESG council.

Case study

Benchmarking best practice diversity and inclusion practices | ANZ

This case study presents a summary of an engagement with ANZ to benchmark best practice diversity and inclusion practices. This engagement helped us to identify some simple measures and recommendations to include in our engagement approach with other companies that are less advanced than ANZ. We also identified some areas for ongoing engagement with ANZ, such as its efforts in indigenous employment.

Part of our ESG process is to identify leaders across different ESG topics where we can, and benchmark best practice for our portfolios. We consider ANZ Banking Group to be a market leader in terms of diversity and inclusion and this has been supported by excellent external reporting on the topic for a number of years. In June 2023, we requested a dedicated call on the topic and met with three members of the culture and diversity teams including a General Manager.

ANZ believes its diverse workforce and inclusive culture will improve the quality of decision-making and drive innovation, making it a better bank for our customers. Through the meeting we confirmed our view and identified some leading practices to inform our engagement with other companies. For example:

1. **Companies should be visible advocates for inclusive workplaces.** It should be obvious through all forms of communications, internal and external, passive and active, that diversity and inclusion are a priority for the business. ANZ has visible signs throughout the offices and in the past has also taken strong public stances on relevant national issues such as the vote for marriage equality.

2. **Invest in becoming a Disability-Confident Recruiters.** ANZ is in the final stages of becoming an accredited Disability Confident Recruiter which they said strengthens external recognition and awareness.

3. **Implement multiple measures and approaches to track and maintain workplace culture.** For example, ANZ conducts Risk Culture Assessments and Culture reviews, conducts 'My Voice' surveys and 360 degree behaviour assessments.

4. **It is time to move beyond just gender diversity.** The bank has made significant progress on gender diversity and currently reports >30% female representation across all levels of the business. It acknowledged however that there is still more work to be done and is specifically focussed on also addressing other types of diversity such as disability and indigenous inclusion.

Modern slavery and human rights

Supply chain | Operations | Application of products and services

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.

Alphinity strongly supports the United Nations Guiding Principles on Business and Human Rights and expect our investee companies to do the same. However, the reality is that forced labour, child labour and other forms of modern slavery exist extensively in the operations or supply chains of most businesses and we as investors have an obligation to mitigate these issues. Sadly, the International Labour Organisation estimated that in 2021, there were 50 million victims[12] of modern slavery globally, up from 40 million estimated in 2016.[13]

In addition to our ethical responsibility to prevent modern slavery and human rights abuses within our investee companies, we recognise the potential investment impacts associated with a failure to adequately manage these risks. Such threats can materialise in various forms, including supply chain disruptions, reputational harm, lawsuits and penalties, shareholder activism and regulatory changes (such as rising wages or import bans).

We also believe that effectively managing modern slavery and human rights risks can protect investment value. For example, companies that uphold strong supply chain management practices, procurement transparency, and make efforts to collect and report on supply chain data (such as working hours, wages and safety measures) are better positioned to manage potential threats and ultimately, ensure long-term supply chain resilience.

We consider that modern slavery and human rights are becoming more visible, both for companies and investors. The introduction of modern slavery legislation in both the UK and Australia has raised the corporate bar and shines a spotlight on sector-wide risks and good management practices. This, combined with human rights due diligence laws in Europe and SEC import laws in the US, has raised awareness of this risk and encouraged companies, investors and consumers to have a more considered and ethical approach to their global supply chains.

Modern slavery and human rights have therefore remained central topics within our ESG analysis and engagement priorities. A core focus of our dialogue with companies has been encouraging greater public disclosure on modern slavery and human rights risk management. Not only does this improve our understanding of the modern slavery and human rights risk profile within a business, but we believe it helps to keep companies to account and places an expectation to progress on activities such as supply chain mapping, audits beyond tier 1 suppliers, supplier data collection and target setting.

We analyse the risk of modern slavery and human rights in three categories: Supply chain, Operations, and Application of products & services. This enables us to narrow in on material issues and company management of the issue, as although the highest risk is generally in supply chains, there can be cases where operational or the application of products and services are more relevant for a business. A description of each area is provided in the table below.

Our **Modern Slavery Factsheet** outlines our overall approach to modern slavery management across our operations and investment activities.

12 **Global Estimates of Modern Slavery** (2022)
13 **Global Estimates of Modern Slavery** (2017)
14 **https://cdn.walkfree.org/content/uploads/2023/05/17114737/Global-Slavery-Index-2023.pdf**
15 **https://www.dol.gov/agencies/ilab/reports/child-labor/list-of-goods-print_**

2023 highlights

- **Engagement**
  Out of 209 ESG meetings held during the 18-month reporting period, 50 (24%) specifically addressed modern slavery and human rights. 18 of these meetings were held with consumer companies and we provide a spotlight for this sector's risks on page 60.
- **Site tours to Indonesia and Bangladesh to explore modern slavery and human rights**
  We believe gaining insights on the ground and understanding the complexities and issues faced within specific supply chains or by region supports more targeted and informative engagement with our investee companies. In 2023, our Head of ESG and Sustainability attended a field trip to Indonesia to better understand the risks within the palm oil industry, while our ESG and Sustainability Analyst attended a field trip to Vietnam and Bangladesh's garment and apparel factories. The site visits play a role in deepening our understanding of the complex nuances in modern slavery and broader social issues, which are often relevant in developing markets.
- **Enhanced modern slavery and human rights risk assessment with new commodity-level, product-level, and country-level data**
  We have updated our risk assessment tool with new data which includes a revised view on specific high-risk commodities, products and country level risks. Adopting a commodity-level view on supply chain risks can help to narrow the scope and target particularly high-risk sectors or business operations. Examples include cocoa, tea, cobalt, electronics, solar panels, garments and automotives.
- **We joined the PRI Advance Initiative on human rights and RIAA Digital Technology and Human Rights Working Group**
  We have increased our participation in collaborative initiatives related to modern slavery and human rights. Participating in groups such as these support our goals related to stewardship and importantly provide broader insights that support our ESG analysis and engagement across our strategies.

Method to identify 22 high-risk commodities/ products

The Global Slavery Index, the US' List of Goods Produced by Child or Forced Labour and other independent research was utilised to update our view of high-risk supply chains for 2023. We also engaged Melissa Stewart, a human rights expert serving on our Sustainable Compliance Committee, to review these findings. Using this research led us to identify 22 commodities and products to integrate into our Modern Slavery and Human Rights Assessment Tool:

- **14 commodities/products identified by the Global Slavery Index:** Walk Free is the creator of the Global Slavery Index (GSI), a comprehensive data set on modern slavery that includes information on commodity and product risks, location risks and government response.[14]
- **8 additional commodities/products were identified by the US' List of Goods Produced by Child Labour or Forced Labour:** The Bureau of International Labour Affairs (ILA) maintains a list of goods and their source countries which it believes are produced by child labour or forced labour. Certain commodities such as cobalt, mica, bricks and tea were not highlighted in the GSI data. However, we have included 8 additional commodities on our watchlist as they were identified by the ILA and supported by evidence from independent research reports.[15]

Modern slavery and human rights snapshot

<table>
<tr><th></th><th>Supply chain</th><th>Operations</th><th>Application of products and services</th></tr>
<tr><td>2023 observations and engagement</td><td colspan="3">The materiality of this issue remained high in 2023 across all risk categories.
Globally there has been a growing focus from regulators. For example, Australia has tightened requirements for the first time since the Modern Slavery Act was introduced. The EU is introducing its Corporate Sustainable Due Diligence Directive that incorporates modern slavery and human rights elements. The US, Germany, France and Canada are all investigating or enforcing modern slavery violations within company supply chains. In Bangladesh, we noted an example of a material increase in minimum wages pass through in the garment and textiles industry
Across the industry, the focus for modern slavery continues to be on supply chain risks even though the above regulations are also relevant to operations and products and services. We have seen increasing disclosures related to supply chain modern slavery risk identification and management, however detailed insights into operational or product related risk are still lacking. Concern around specific products and commodities such as textiles, palm oil, solar panels, cobalt and automotives were particularly visible in 2023 due to active company controversies, negative media attention, and regulatory focus.
Engagement priorities:
• Supply chain: Supply chain mapping and audits beyond tier 1; setting social targets in the supply chain such as safety, diversity and engagement; fair pricing agreements and nature of contracts; use of whistleblower hotlines; strategic approach to managing modern slavery in the supply chain.
• Operations: Safety and working conditions for contractors; risk oversight and management of Malaysian manufacturing; human rights impacts of mining activity, including environmental pollution, community impact and land rights; managing high risk jurisdictions.
• Products and services: Modern slavery risk assessments in lending; management of modern slavery risks through digital technology (such as surveillance and data privacy); know your client processes.</td></tr>
<tr><td>Example measures</td><td colspan="3">There is overlap in the company management practices that we seek across these risk categories. Examples of measures include:
• Identification of high-risk activities within operations, supply chain or products & services, including reference to specific commodities, locations and the proportion of business exposed to these activities.
• Frequency and nature of modern slavery and human rights incidents
• Availability and use of whistleblower and complaints mechanisms
• Grievance management approach and measures of effectiveness
• Adoption of external certifications to verify modern slavery management practices</td></tr>
</table>

Engaging with companies on modern slavery and human rights

Modern slavery is a complex issue hidden within a global network, making it hard to address and challenging to overcome. Progress takes time and effort over many years. As investors, we use engagement to stay updated, monitor progress, learn from best practices, and advocate for more focus on modern slavery and human rights. Where we find the approach to managing this risk is lacking, we aim to provide feedback to companies directly.

We view multi-stakeholder engagement as an important driver to overcome and ultimately drive down incidents of modern slavery and human rights. We strongly encourage companies to collaborate in this manner, as often these issues are not company-specific but caused by systemic issues such as poverty, lack of education and weak legal protection.

Examples of our engagement with companies in 2023 include:

- **AirBNB:** Investigating modern slavery risks related to host activities and oversight of cleaning services.
- **BHP:** Introductory meeting through PRI Advance to explore the company's position on remediation efforts and modern slavery risk assessments beyond tier 1 suppliers.
- **Costa Group:** Addressing issues related to working conditions and payment for migrant/seasonal workers.
- **Keysight Technologies:** Engaging in responsible sourcing practices and ensuring environmental and social standards are upheld throughout the supply chain.
- **Nestle:** Exploring supply chain leadership and the advantages of aligning targets with suppliers, focusing on implementation and reporting.
- **Starbucks:** Engaging to understand their leadership in supply chain practices, the development of its own ethical sourcing standards, and the benefits of NGO collaboration.
- **Wesfarmers:** Ongoing engagement to develop strategy to manage modern slavery risks, including setting goals in the supply chain and assess the potential to increase wages for suppliers.

Modern slavery and human rights risk assessment tool | Evolving our approach

In 2021, we introduced a Modern Slavery and Human Rights Risk Assessment Tool to support the consistent identification and analysis of different risks across investee companies and those under consideration for investment. Over the past three years, this tool has served as an important foundation to identify and review the modern slavery and human rights risks in our portfolios. Each year we have introduced improvements to reflect emerging risks and integrate company management measures into the tool to form a view on residual risk. The graphic below illustrates how this tool has evolved, 2023 enhancements and a sample of assessment outcomes for all holdings over the 18-month reporting period.

Why this tool matters:

Using this tool enables us to better understand high-risk commodities and regions within our portfolios. Benchmarking across all holdings allows us to identify common reporting practices, strong disclosures and areas where certain companies are lagging. Gaining company and sector-specific insights is a central outcome of this process, helping us to better integrate modern slavery and human rights risks into investment due diligence, company monitoring and engagement priorities for the year ahead.

Three components	2021	2022	2023	2023 assessment outcomes
1. Risk identification In 2021, we introduced a risk assessment tool to identify companies and sectors which present the highest overall modern slavery and human rights concern across three categories (supply chain, operations, application of products & services). This remained in use through 2022. **+ 2023 enhancement:** *Revised commodity and location risks.*	●	●	●	• 143 companies analysed • 50% with a high supply chain risk • 40% with a high operational risk • 35% with a high downstream risk
2. Management indicators In 2022, we introduced management indicators to measure a company's response to modern slavery and human rights risks in the supply chain. For example, human rights policies, supply chain audits, incident reporting and UN Global Compact commitment. **+ 2023 enhancement:** *Additional indicators such as terminated suppliers and audit certifications.*		●	●	• 90% companies with a modern slavery statement • 30% companies disclose the number of supply chain audits • 59% companies disclose information on breaches • 87% companies with human rights in Supplier Code of Conduct
3. Disclosure quality In 2023, we introduced measures that reflect a company's disclosure quality. **+ 2023 enhancement:** *Assessed companies that specify high risk commodities, locations or proportion of spend.*			●	• 45% companies specify high risk commodities • 36% companies specify high risk locations • 30% companies specify spend towards high risk suppliers

● Introduced ● Completed ● Enhanced

Consumer spotlight | Product and commodity risk assessment

- Since first completing our modern slavery risk assessment in 2021, the consumer discretionary and consumer staples sectors have consistently been associated with the highest exposure to modern slavery and human rights risks.
- Looking back over the past 18 months, a significant part of our modern slavery research and company engagement has therefore been directed towards consumer companies. Notably, among the 50 ESG meetings that discussed modern slavery and human rights, 19 involved companies in the consumer space.
- In 2023, we enhanced our risk assessment process by integrating additional data for high-risk products and commodities. Data sources include the new data from the Global Slavery Index, the US' List of Goods Produced by Child or Forced Labour and other independent research such as site visits.
- As part of this analysis we have also integrated the relevant high-risk locations, use cases, and salient risks[16] into our view on specific supply chain issues. This enhancement is particularly valuable for our consumer company analysis because modern slavery and human rights issues are embedded in supply chains and are often context dependent.

The below illustration includes 12 of 22 high-risk products and commodities that are flagged within our assessment tool. It also includes examples of high-risk locations, use cases and salient risks. This research supports the investment team to analyse modern slavery and human rights issues within portfolios and aids in risk-based engagement with companies.

			Salient risks			
	High-risk locations	High-risk use cases	Forced labour / debt bondage	Child labour	Working conditions	Low wages
Product						
Electronics	China, Malaysia	Widespread	x			x
Furniture	Vietnam, Pakistan, Belarus	Real estate development, hotels, entertainment		x	x	x
Garment, textiles	Bangladesh, India, Pakistan, China	Clothing, footwear, PPE, toys	x	x	x	x
Solar panels	China	Renewable energy, real estate	x			x
Bricks	India, Bangladesh, Cambodia, Argentina	Construction	x	x	x	x
PVC Plastic	China	Pipes, cable insulation	x			x
Commodity						
Cobalt	Democratic Republic of the Congo	Batteries (automotive, electronics)		x	x	x
Cocoa	West Africa, Indonesia, Brazil	Food and beverage		x	x	x
Mica	India, Madagascar	Automotive paints, cosmetics		x	x	x
Fish, seafood	China, Vietnam, Thailand, Taiwan	-	x	x	x	x
Rubber	Malaysia, Vietnam	PPE	x		x	x
Tea	China, India, Kenya, Bangladesh, Sri Lanka	Beverage	x	x	x	x

16 **Definitions:** Forced labour and debt bondage refers to specific vulnerabilities such as exploitative migrant labour practices and state-sponsored forced labour. Child labour is a broad term, and in this instance refers to exploitation that interferes with school attendance and/or presents safety risks. Working conditions refers to health and safety risks, poor labour management conditions and workers subject to housing arrangements. Low wages include underpayment and pay below minimum wage that are prevalent drivers of human rights and modern slavery issues across all commodities and products.

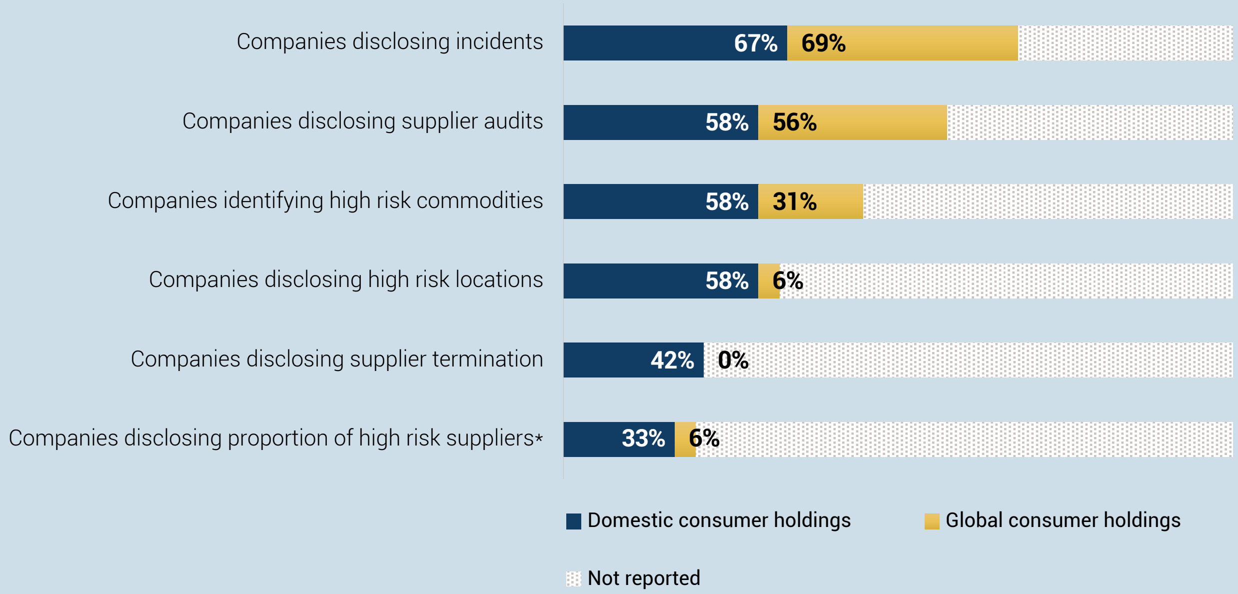
Consumer-related modern slavery and human rights insights

Consumer companies are exposed to 20 of the 22 high-risk products and commodities | Consumer companies have a higher risk profile due to the nature of their supply chains.

Consumer companies are leading in disclosing incidents and supplier audits | While presenting more risks than other sectors, consumer companies are generally more advanced in risk management and disclosure. Both Australian and global consumer companies commonly report the types of incidents found, the extent of breaches and the number of supplier audits.

Australian company disclosures are more detailed than global | We feel that the Australian Modern Slavery Act has accelerated action since its introduction in 2018, with many Australian consumer companies reporting a range of metrics that identify high-risk commodities, locations and the mix of high-risk suppliers.

Australian consumer companies are beginning to report the number of suppliers terminated due to human rights breaches | 42% of Australian consumer companies report the number of suppliers terminated while no global companies disclosed this metric.



Considerations for engagement

While disclosures have improved, we are finding that strong modern slavery strategies supported by targets and implementation are still in early stages.

Companies are increasingly open to sharing incidents uncovered through their audits and tend to expand on the types of issues assessed each year. However, only a small number of companies disclose more in-depth action to mitigate modern slavery and have targets and metrics that underpin the strategy.

In 2024, we will encourage companies to report **risk-based metrics** such as high-risk commodities, products and locations; **performance metrics** including the number of incidents, remediation and terminations; and **management metrics** such as the number of audits and strategy development. A focus for us in 2024 is to engage with companies to encourage target-setting in modern slavery and human rights strategies.

Case study

Benchmarking good practice for modern slavery and human rights risk management | Nike

This case study presents a summary of Nike's modern slavery and human rights strategy. It is one of few companies that go beyond risk assessments by targeting social improvements in the supply chain across safety, gender diversity and employee engagement. This has informed our engagement with other companies that are yet to establish a clear human rights and modern slavery strategy that is supported by targets and metrics.

Modern slavery and human rights is a visible ESG issue that Nike has been managing for many years. This risk is driven by the company's reliance on suppliers that manufacture high-risk products: footwear and apparel. While we acknowledge this risk, we also believe that Nike's strategy is leading because of its transparency and the social targets placed on its strategic Tier 1 suppliers. Our analysis of the company confirmed some leading practices:

- **Companies should collaborate with suppliers and set formal supply chain targets:** While there is increasing disclosure of audits, incidents and remediation, many companies lack explicit targets in their human rights and modern slavery strategy. Nike has adopted targets to improve gender equity, employee engagement and safety in its strategic suppliers by 2025 and reports on these metrics annually.
- **Annual improvements in the strategy and looking beyond Tier 1:** After mapping out Tier 1 and Tier 2 suppliers, in FY21 Nike expanded the scope of its environmental and social targets in the supply chain to include Tier 2 material suppliers.
- **Gaining better visibility into wages:** Nike has collected wage data for 103 strategic suppliers that manufacture 80% of product volume and has included wage sentiment explicitly as part of its supplier surveys.

Reputation and social licence

ESG leadership | Ethics | Stakeholder impact | Controversy exposure

A company's social licence to operate is a measure of the level of trust between an organisation and its key stakeholders. If a company loses the trust of its stakeholders, its social licence to operate is also impacted and often results in negative consequences for its operating conditions. This impact can be as a result of regulatory intervention, community protests and disruption, customer-related controversies, unfavourable news and media, corruption and bribery, and shareholder activism.

Often, reputational and social licence related issues can have a cumulative effect on a business. That is, one seemingly minor issue associated with one stakeholder group, combined with another seemingly minor issue with another can have a 'snowball' like impact on a company's reputation. Certain businesses can also be more susceptible to reputational damage due to their size, history, or visibility to the general public.

We believe that demonstrating ESG leadership and maintaining strong corporate ethics helps to build trust and mitigates the impact of negative or controversial events on a business.

We view a company's social licence and overall reputation as a material driver of performance over the longer term. Within our ESG Framework we have identified four main drivers of social licence and reputation that are most relevant across the holdings in our portfolios: ESG leadership, ethics, stakeholder impact, and controversy exposure. These have been described in the table below following some 2023 highlights in the space.

Controversy management steps

As investors in large, listed companies, it is relatively commonplace that we are required to consider the implications of controversies on a business and manage the impact through ESG integration techniques such as engagement, portfolio construction or divestment.

When deciding on how to act in response to an ongoing controversy, we consider numerous factors including the severity of the issue, implications for business performance, visibility in the media, whether the issue should be considered isolated or systemic, whether there are cultural implications or concerns regarding corruption and ethics, and how timely and appropriate the company's response has been.

In some situations, the appropriate action might be to divest, however, most often the best action is to firstly engage with the business to properly understand the issue, adjust the portfolio to manage the risk if required, and continue to engage with the company over time to encourage appropriate behaviour in the future.

When faced with a new or changing controversy we generally follow a four-step process:

1 **Engage**

with the company to understand the cause, impacts, and proposed management

2 **Validate**

the company's account with external experts, further research, and other third-party views

3 **Act**

to manage risk within the relevant portfolio/s. For example, by adjusting the active weight, divesting from the stock, and/or externally communicating our views

4 **Monitor**

the issue through ongoing engagement and adjust actions as required.

2023 highlights

- **Social licence research trips**
  In 2023, we completed two local research trips focussed on social licence related issues. Firstly, we visited the Newcastle region to meet with local community groups and businesses to understand the impacts of the energy transition on coal workers and what is expected of listed companies to reduce the impact. Secondly, we visited Western Australia (WA) and met with Traditional Owner groups and other community organisations to discuss the changing regulatory landscape in WA, particularly in relation to Traditional Owner rights. Both trips helped inform our ESG analysis for Australian mining and energy companies that operate in those regions. They also informed our engagement with global companies that face similar community related social licence challenges.
- **Increased engagements related to changing customer expectations**
  Recognising that customer expectations are always changing, we have increased our engagements with large consumer companies to ensure that their strategies are future fit. Examples of some topics covered in recent engagements include:
  - **Woolworths:** Interest in plant-based food and meat alternatives, reducing plastic packaging and soft plastics recycling, and store design to support healthier choices.
  - **Procter & Gamble:** Overall sustainability of product portfolio, innovation and research priorities, and management of deforestation risk.
  - **Estee Lauder:** Ethical marketing and the use of influencers to promote products online, animal testing policy and global requirements, and recycled/reusable packaging for skincare and makeup.
- **Direct engagement with the Puutu Kunti Kurrama and Pinikura (PKKP) Aboriginal Corporation**
  We participated in two small group meetings with the PKKP Aboriginal Corporation to discuss the ongoing relationship with Rio Tinto following the destruction of Juukan Gorge, and feedback on heritage management practices more generally. Getting this first-hand, third party, feedback from a leading Aboriginal organisation was extremely valuable. The insights supported our engagements with Rio Tinto and other large mining and energy companies.
- **Decision making tool for controversies**
  In 2023 we trialled a decision-making tool for controversies that uses a set of criteria to help us step through the different impacts of a specific controversy and determine the appropriate action. We plan to implement this more widely as part of our ESG processes from 2024.

Reputation and social licence snapshot

	ESG leadership	Ethics	Stakeholder impact	Controversy exposure
2023 observations and engagement	**In 2023, this issue increased in relevance across most sectors.** In the US, there was some politicisation of 'ESG', however rather than negatively impact the uptake of ESG within corporates, we feel that this has refocussed the conversation towards financially material issues. We are seeing a greater focus on ESG leadership that extends beyond just operational initiatives to product sustainability. For example, financially inclusive lending products. This has been a focus of our analysis and engagement throughout 2023. **Engagement priorities:** • Participation in industry collaborations to manage challenging issues • Peer benchmarking and relative view of ESG leadership • The value of ESG initiatives and balancing priorities across strategies	**Similar to ESG leadership, this issue has increased in materiality as the focus on corporate social responsibility has grown.** Our view on organisational ethics is difficult to generalise as it is very dependent on each individual company and the specifics of each issue. Ethics is also a fluid concept which is linked to the moral views of individuals or groups. A significant change in 2023 is in relation to AI, biometrics, and data ethics. This is a relatively new ethical concern for businesses. We have initiated a project to develop a Responsible AI Framework that will help assess the ethical implications of AI and big data. See the digital technology section for more information. **Engagement priorities:** • Customer /stakeholder views of ethical issues • Research into alternative products/ practices which limit ethical concerns • Animal welfare considerations and ethics	**The materiality of this issue has remained similar in 2023.** Across our holdings, the focus varies depending on the main operating locations and sector. For example, for Australian mining companies our focus is mostly on traditional owner impact, however for consumer companies our focus is mostly on customer service, benefits and complaints. For global equities, Government ownership is also a material consideration. **Engagement priorities:** • Gaining free, prior and informed consent from traditional owners • Stakeholder benefits and philanthropic efforts • Trust analysis and measures • Improved disclosure on measures for trust (eg customer NPS)	**The materiality of this issue has remained similar in 2023.** Generally, companies which are very large, highly visible in the market, and have a history of controversial practices or events, are more exposed to experiencing controversies that result in a material impact on the business. Across our holdings, companies with public facing brands are generally the most exposed to material controversies (for example consumer companies). In Australia, large mining and energy companies are also exposed given their size and visibility in the market. **Engagement priorities:** • Management of active controversies • Controversy exposure from non-operated assets • Corruption and bribery risk
Example measures	Annual ESG disclosures; Breadth and nature of targets across material ESG topics; number of shareholder proposals	Ethics policy or similar; ethics committee	Net promoter score (NPS), Reputational/ trust score (eg Reptrak); Voice of Customer score; Government ownership and oversight	Number of past and ongoing controversies; policies for controversial regions/customers

Case study

Managing long-term community impact to mitigate regulatory risks | CSL

CSL is dependent on donated plasma to deliver its life saving products. We believe that donor health is a key longer term ESG risk for the business and if not managed well may result in unfavourable changes to regulation, challenges with donor recruitment, and impacts to CSL's social licence. We began engaging with the company on this issue in 2020. Since then, CSL has updated its strategy to include patient experience and donor health as a priority focus.

Introduction: CSL is one of the world's largest biotechnology companies that specialise in plasma collection and vaccines. In 2020, our ESG analysis identified that CSL's sustainability strategy was lagging behind ASX peers and could present a longer-term social licence risk if not improved. We also identified that donor health was a material risk for CSL that could create future regulatory pressures for the company. Specifically, we identified a concern in the US market where the frequency of donations is higher than in other places like the UK and Australia. As such, there is potential that the US regulators may change allowable donation rates if concerns about long-term donor health, and benefits for the community, are not supported.

Engagement objective: In 2020 we began engaging with CSL to improve its approach to sustainability and integrate donor health as a key component of its corporate sustainability strategy and priorities.

Engagement outcomes:

- CSL has updated its ESG strategy to include a focus on donor health and experience, a commitment to the Science Based Targets Initiative, and a range of other new targets.
- CSL has initiated a study to measure the community impact of donor centres.
- CSL has established a centralised ESG function and appointed its first Chief Sustainability Officer in 2023.

Next steps: CSL has made progress to improve its overall sustainability strategy and recognises the importance of long-term donor health over the past three years. We will continue to engage with the company to implement goals that relate to its donor health strategy.

Case study

Detailed research to analyse the impact of new obesity drugs | Novo Nordisk

Novo Nordisk is a Danish healthcare provider and, in our view, is an ESG leader amongst global equities. Before investing in the company, we completed detailed analysis to consider the positive and negative implications of weight loss medications on society and obesity as a disease. This case study presents our overall views of this issue and outlines our engagement priorities for Novo moving forward.

Introduction: Novo Nordisk (Novo) is a Danish healthcare company that offers treatments for chronic diseases including diabetes and obesity. In 2017 Novo launched an antidiabetic drug called Ozempic. In 2021, Novo demonstrated through clinical trials that Ozempic's active ingredient, Semaglutide, also delivered weight loss results for people with a Body Mass Index (BMI) above 30. Shortly after, the company launched Wegovy which was approved by the FDA for people who have obesity or are overweight.

The reported benefits of these drugs for weight loss has driven massive uptake globally. Throughout 2022 and 2023, the off-market use and promotion by celebrities and influencers, resulted in global supply shortages which had an impact on access for people with diabetes. This also sparked debates about the ethics of weight loss drugs more generally.

What we did:

- Before investing in Novo in 2023, we completed an analysis of the social impacts and benefits of weight loss drugs and considered the external factors which may affect Novo's social licence over the longer term. This analysis focused on understanding whether weight loss drugs do more harm than good.
- As part of this analysis, we also engaged with the company to determine its role in the off-market uptake of the drug and to discuss the view on the longer-term effectiveness of the drug.

Conclusions:

1. Through our engagements we gained some confidence that Novo have not been encouraging the off-market uptake of its drugs and was working within the regulatory frameworks to limit access for its intended purposes only. However, due to the marketing laws in the US, some element of marketing drugs to the general public would still occur.
2. We believe that weight loss drugs have a role to play in addressing obesity, however for the benefit to be realised, negative side effects, off-market use, and the long-term effectiveness of the drugs need to be addressed. As such, we believe that Novo has the potential to implement additional measures which will help support positive outcomes for obesity as a disease.

Next steps: We have established engagement objectives related to the above conclusions that we believe, if implemented, will help Novo reduce the risk of reputational controversies related to the off-market use of the drug and support a long-term positive impact on obesity.

- Develop programs that support wider solutions to weight loss (e.g. lifestyle changes, mental health support)
- Work with insurers and governments to encourage greater on-market access to the drugs
- Publish an ethical marketing policy which covers engagements with health practitioners, sales, and paid advertising.

We have discussed these with the company and will continue to engage throughout 2024.

Case study

Managing significant controversy risk | Qantas

Throughout 2023, Qantas experienced a number of controversies that significantly impacted its social licence to operate and therefore created an investment risk over the longer-term. We feel that regaining stakeholder trust over the medium and longer-term will be important to ensure the business returns to its previous status as the nationally preferred airline. This case study summarises this controversy and our actions to escalate the issue during 2023.

Introduction: Over the past two years, there has been an accumulation of issues linked to Qantas's decision making and governance which have had a material impact on public trust and its social licence to operate.

In 2023, the ACCC announced that it was investigating Qantas because it had engaged in false, misleading, or deceptive conduct, by advertising tickets for more than 8,000 flights that it had already cancelled but not removed from sale. In our view, this was the straw that broke the camel's back. Since COVID, Qantas has faced a number of challenges which have been chipping away at its social licence to operate. For example, frustrated customers due to increased disruptions, call centre wait times, challenges using flight credits, and ongoing disputes with unions.

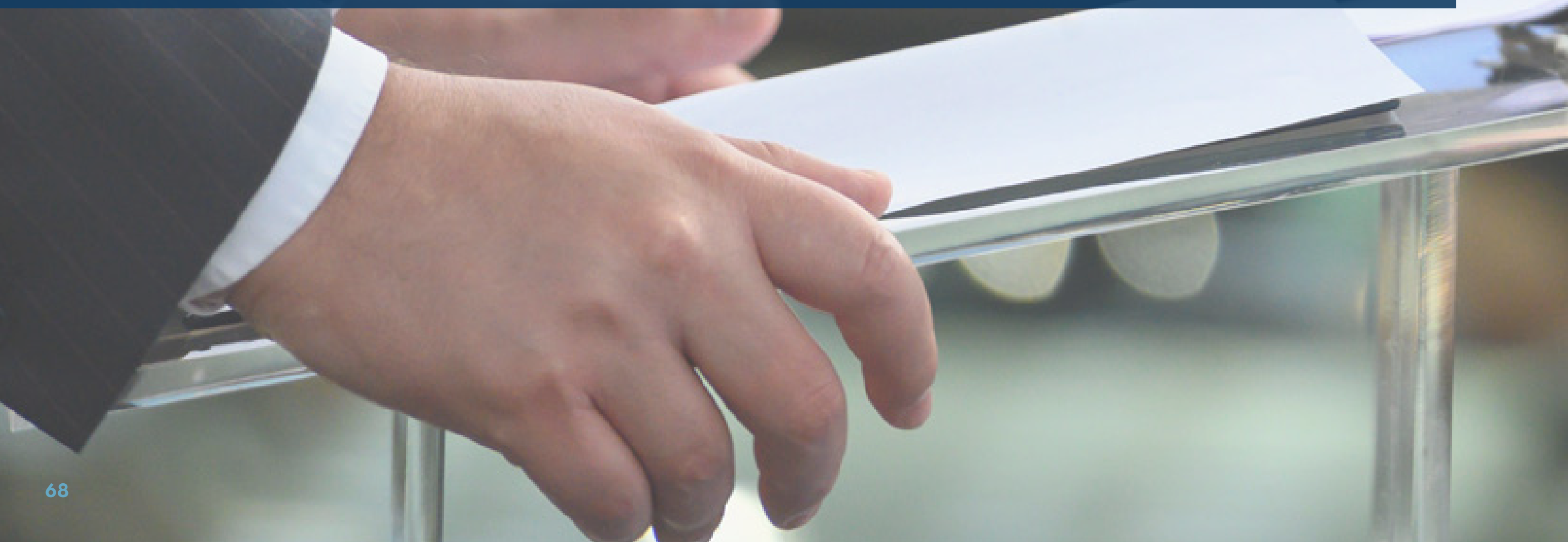
Following the controversy, Qantas announced changes to its Board (including a new Chair), changes to the Executive incentive structures which will enable a greater focus on customer experience and reputation, and a broader customer improvement program.

What we did:

- Following the ACCC announcement and before the company's AGM, we engaged with the Chair of the Board on two occasions to discuss the specifics of the ACCC claims, issues related to customer feedback and trust since the start of September 2023, planned changes to the Board, and impacts on Executive Remuneration.
- We used our voting power at the 2023 AGM to vote against the Remuneration Report and re-election of Tom Sampson. We voted against the Remuneration Report as we felt that there had been insufficient reductions to incentives paid to Executives despite the numerous reputational controversies over the 2023 period. We voted against the re-election of Tom Sampson to hold the Board to account for the failings in customer service over the reporting period.
- We communicated our views in a letter to the Board and requested further feedback from the Board on its planned actions to improve its reputation.
- We established engagement objectives related to Board composition and renewal, ongoing communication with the market, Executive remuneration impacts and changes, and customer experience.

Next steps: We believe that the key in addressing most of the immediate customer retention issues, and therefore protecting short-term revenues, lies in the company's ability to address on-time performance and customer satisfaction with the COVID credits. We do not think that the average customer will choose to fly a different airline based on media controversy, and issues that are unrelated to them, however they may choose to fly an alternative airline if they feel the service is compromised or they are being unfairly treated.

Although we feel that the company has taken positive steps to improve its on time performance and overall customer experience, the bigger picture impact on Qantas's brand is an ongoing concern. We plan to monitor this issue closely and will continue to engage with the company throughout 2024.



Digital technology

Cyber crime | Data privacy | Artificial Intelligence (AI)

With the rapid uptake of digital technology, issues associated with cybersecurity threats, data privacy, and artificial intelligence are becoming an increasingly important part of our ESG assessments and company engagements.

With the introduction of our ESG materiality process in 2021, cyber crime and data privacy were both identified as material issues for a number of companies across our strategies. In 2023, we added AI as a specific material issue and started a research project with Australia's premier scientific government research organisation, CSIRO, to develop a Responsible AI Framework for investors.

Further information on the three core issues (Cyber Crime, Data Privacy, AI) assessed in our ESG Framework is provided below.

Cyber risk good practice

Examples of good practice cyber risk management:

- An integrated approach to cyber security which includes policies, staff training, cross-disciplinary responsibility, and Board capability and reporting.
- Regular testing and audits of IT infrastructure to ensure that overall quality is high. This is known as "basic hygiene".
- Having playbooks in place that are tested and maintained on a regular basis. These should cover actions required in the first 72 hours post an incident as a minimum.
- Data privacy policies which include details on data management. For example, the mechanism by which stakeholders can request that data is deleted and the length of time different types of data is held for before being permanently deleted.

2023 highlights

- **CSIRO partnership to develop a Responsible AI Framework for investors**
  At the beginning of 2023 we signed a partnership agreement with the Data61 team of CSIRO to undertake a research project into AI risks and opportunities, conduct a series of company engagements related to AI uptake, and develop a Responsible AI Framework for investors. This project demonstrates the growing emphasis we place on stewardship and thematic research (see case study below).

- **Engagement with cyber experts**
  We completed a set of expert engagements to identify best practice management measures to mitigate the risk of cyber incidents. These are important to guide future company engagements on the topic.

- **RIAA Digital Technology and Human Rights Working Group**
  In 2023 we joined the RIAA Digital Technology and Human Rights Working Group. The goal of this group is to develop a toolkit for investors to manage the human rights risks associated with digital technology. We have brought our experience from the CSIRO AI project to contribute meaningfully to this group.

- **Submission for the Federal Government's Safe and Responsible AI in Australia consultation paper**
  In July 2023 we submitted a response to the Government's consultation on safe and responsible AI. The full submission is available on the Alphinity **website**.

Digital technology snapshot

	Cyber crime	Data privacy	Artificial Intelligence (AI)
2023 observations and engagement	**This issue has progressively increased in its materiality since 2022.** These days, almost all parts of modern businesses are connected, cloud based, and online. Globally there has also been an increase in cyber crime activity, cyber attacks on companies, and a growing focus on regulation that protects consumers, especially the vulnerable, against cyber criminals and scams. We have defined some best practice principles for managing cybercrime, however as it is a rapidly evolving space, we will continue to treat it as a key issue for 2024. **Engagement priorities:** • Management of scams and customer training and engagement • Cyber risk management processes • Reporting of cyber breaches	**Similar to cyber crime, this issue has increased in materiality in 2023 as businesses have become more connected and cloud based.** Data is collected, purchased, and/or used by most businesses for activities like research, product development, marketing or customer engagement, credit analysis, and external reporting. The increased focus on AI, which commonly uses large amounts of data to run algorithms, has also contributed to a growing focus on data privacy and data ethics. More generally, the community are also increasingly aware and concerned about data privacy and the threat of scams. In 2023, we noted a growing focus on child privacy as a subset to this issue. Our primary concerns are related to access to social media and the unauthorised use of data. We expect that legislation will continue to tighten in this space. There has also been more discussion about data privacy as a human rights issue. We expect there will be ongoing pressure for companies to improve data governance and disclosures in 2024. **Engagement priorities:** • The types and sensitivity of datasets used by businesses • Ownership of and responsibility for data privacy (particularly for service providers) • Overall data governance, policies and implementation	**This issue has increased significantly in materiality in 2023 due to the launch of ChatGPT in 2022 and the 'AI boom' that followed.** Many jurisdictions are considering AI specific legislation that will potentially restrict the development of some AI based technologies and put strict controls in place for others. In 2023 we initiated a research project with CSIRO to develop a Responsible AI framework for investors. Although we identified AI as a key consideration and added it to our ESG processes in 2022, the framework will help us to better assess ESG related risks and opportunities **Engagement topics:** • Responsible AI policy or framework • Current and future uptake of AI and potential ESG related risks and opportunities • Changing global regulation and business readiness
Example measures	Cyber rectification cost; number of cyber incidents; cyber related fines; staff training in cyber management.	Data privacy policy; amount of data used that is collected internally vs purchased externally; number of customer complaints related to data collection or misuse.	To be defined within the Responsible AI Framework for investors.

Case study

Balancing employee safety and wellbeing in content moderation | Accenture

The era of digital technology will continue to present companies with a unique set of ESG risks that investors must be aware of. This case study demonstrates how 'good' services such as content moderation can have adverse impacts on individuals and emphasises the responsibility of companies like Accenture to manage psychosocial safety and employee well-being.

Accenture is a global professional services company which offers content moderation services to companies that operate online platforms. This plays a pivotal role in maintaining the integrity and safety of digital platforms such as Facebook, Instagram, and YouTube. While it is an important safety and security tool, it will often create psychological challenges for individuals who are tasked with identifying and reviewing suspect material. Concerns with the mental health impact on content moderators has led to lawsuits, widespread complaints and public scrutiny. Accenture was the subject of controversies arising in 2021 related to content moderation services provided to Facebook (now Meta).

Engagement: We have engaged with Accenture to understand its management practices to support employee safety and wellbeing. These include providing on-demand counselling services, fostering a "speak-up" culture, regular monitoring of employee sentiment through surveys, and ensuring employees are upskilled and do not remain in these roles for extended periods of time. Accenture is also actively exploring how AI tools can assist in content moderation.

Case study

Deep dive session on data privacy and facial recognition software | Motorola Solutions

This Motorola Solutions analysis and engagement highlighted the importance of understanding the ESG implications of digital technology and integrating this thematic within our overall ESG Materiality Framework.

Motorola Solutions is a global provider of safety and security technologies, including video surveillance systems powered by AI analytics and command centre software used by emergency services. The majority of its revenue is from Government clients but also from schools and private businesses.

Issue: As part of our ESG due diligence process, we identified potential risks related to the misuse of company products and technology, data privacy concerns, and the overall ethics of facial recognition software. We identified the following material ESG risks:

- Major cyber breach or data security incident could create national and international headlines resulting in regulatory fines, impacts to its customer base, and ultimately the share price.
- Changing regulation around sensitive technologies (e.g. facial recognition) and AI could impact the business case for certain products or impose additional regulatory oversight and reporting.
- Corruption or bribery leads to company products and technology being misused, creating significant controversy risk and flow on impacts related to regulatory fines. The company's social licence would be at risk.

Engagement: Before investing in the company, we requested a meeting to discuss data privacy, data ethics, corruption and bribery, and the use of facial recognition software. We had two one-on-one meetings on this topic and spoke to the company's VP Ethics and Compliance, VP Legal and ESG, and the Chair of the Technology Advisory Committee.

Through the engagements, we confirmed that the company had leading policies in place to manage data privacy and corruption. It also had ethics principles in place to manage risks associated with facial recognition technologies and AI more broadly.

Conclusion: We concluded that Motorola Solutions' management of the above issues was adequate, however due to the materiality of the data privacy and facial recognition related risks, a level 2 (medium) ESG risk was warranted. In our view, the company has strong data privacy, corruption and know-your-client policies and processes in place. We were also comfortable that ethics principles are being appropriately considered in the design and deployment of facial recognition technology and other AI-based products at Motorola.

Case study

Integrating Responsible AI into ESG | A Framework for Investors

As excitement around artificial intelligence (AI) grows, Australia's national science agency, CSIRO joined forces with Alphinity to co-design a framework to help investors identify and manage emerging AI risks and opportunities by building on existing ESG foundations.

This project was initiated in January 2022, following close to two years of internal research and review considering responsible AI. At the time, there was a lack of guidance for investors related to responsible AI and we reached out to CSIRO as an expert organisation in the field. Through these early discussions we recognised the need for greater understanding of the ESG implications of AI in the investor community. This project was a first for Alphinity and demonstrates our growing emphasis on stewardship and research. In December 2023, we published a **mid-project snapshot** which outlined early insights from our engagement with companies. The full report will be available in May 2024.

Engagement insights:

INSIGHT 1

It's still early days for companies to consider Responsible AI (R-AI) in ESG. Companies recognise the opportunities but are concerned about social license and reliability, so a strong AI strategy and good governance is needed to capitalise on the opportunity while mitigating AI risk.

INSIGHT 2:

Good ESG governance is both a springboard and a gauge for investors navigating the complex, evolving landscape of AI risk and opportunity. Companies with a good overall governance and risk management approach are well prepared to safely explore AI benefits.

INSIGHT 3:

Leaders and laggards are already emerging in R-AI. Companies leading the pack are asking questions about the future of their sectors in an AI-enabled world. AI disclosures don't necessarily mean strong practice.

Framework components

- **Established R-AI principles**: Established R-AI principles endorsed by the Australian Government and developed by experts including CSIRO's Data61 team.
- **Materiality assessments:** Targeted analysis dependent on current and future AI use cases, high risk applications and their touch points with existing ESG considerations to move investor attention through a risk lens.
- **Investor AI question bank:** Can be used to gain confidence in the company's R-AI management capability, with specific questions for deeper analysis of companies with an elevated AI risk profile.
- **AI metrics:** To reveal successful R-AI implementation or under-explored risks which can guide investors in their own R-AI assessments and encourage useful disclosures from companies.

Case study

Microsoft's Responsible AI strategy

In our view, Microsoft is a world leader in AI which already has good public disclosures. It displays strong AI governance practices and risk management processes that are specific to AI. We interviewed Microsoft's AI Policy and Technology Lead, Lee Hickin, as part of the CSIRO research project.

As both a supplier of AI technology to others and a company that uses AI to run its own business, Microsoft's vision is to empower transformation and unlock access to AI technology globally. At its core, we believe that strong AI governance is pivotal to not only adequately mitigate AI risks, but also to successfully scale and capitalise on AI opportunities. This is especially important for companies like Microsoft where AI underpins its financial success.

Microsoft offers a great deal of disclosure on its R-AI strategy. In 2022, Microsoft publicly released the second version of its Responsible AI standard. From a transparency perspective, we view this document as best-in-class because it demonstrates to stakeholders the 'how' of R-AI implementation. But, beyond disclosure, the interview outlined how the governance model is structured to embed R-AI at every level of the business.

Microsoft's Office for Responsible AI (ORA) is accountable for setting R-AI standards within the company and formally implementing risk assessments across the business. It is complemented by a Responsible AI Council and 150 AI Champions dispersed through the company globally. This structure is intended to close the communication gap between Board, executives and management professionals on one side, and AI engineers and product managers on the other.

A question we raised through the interviews is what defines a 'high-risk' or 'sensitive' AI application that should be subject to heightened due diligence and even escalated to senior management. Microsoft is one of few companies that clearly communicates the ways in which AI is integrated into its risk management system. Microsoft uses an AI Impact Assessment tool to measure the potential impact of misuse on stakeholders. This publicly available document defines three Sensitive Use triggers: consequential impact on legal position or life opportunities; risk of physical or psychological injury; and threat to human rights. For any system that meets the definition of sensitive use, a sensitive use case review is initiated and feeds back to the ORA.

Sustainability governance

Leadership awareness and capability | ESG-linked remuneration | Sustainability strategy | Sustainability disclosure

Corporate governance is the systems, rules, policies, procedures, and practices by which a company is directed and controlled. We firmly believe that strong governance is a leading indicator for company performance and provides a foundation of stability and structure for a business.

Through our investment activities we assess and manage corporate governance elements such as director elections, shareholder rights, corruption and bribery and executive remuneration. Given the breadth of corporate governance as a topic, this section of the report is focussed on sustainability governance as a key emerging area for companies and investors. We see sustainability governance as the central pillar which ensures better outcomes across environmental and social aspects. We assess this issue across four key elements: leadership awareness and capability, ESG linked remuneration, sustainability strategy, and sustainability disclosure.

Our Stewardship Policy and ESG Policy offer information on our broader approach to corporate governance. The **ESG integration** and **Proxy voting** sections of this report include corporate governance case studies.

2023 highlights

- **ESG-linked remuneration**
  We have increased our analysis and engagement related to ESG-linked remuneration. See the case study below which highlights our analysis and views.

- **Engaging with company Directors on ESG**
  For example:

  - **Woolworths**: We participated in three one-on-one meetings with company directors in 2023. Among other topics we discussed the Voice of Customer results and measures to improve social licence, cyber risk and management, and workforce health and safety.
  - **Woodside:** Dedicated engagement with Chair of the Board to discuss the company's climate strategy and ambition prior to the 2023 AGM.
  - **Rio Tinto:** Dedicated engagement with the Chair of the Remuneration Committee to discuss the integration of psychosocial risk measures in remuneration. We also discussed the progress to meet the Everyday Respect report recommendations and traditional owner management.

- **EU regulation and reporting standards research trip**
  Alphinity's ESG and Sustainability Analyst completed her second research trip to the UK (following a similar trip in 2022) to attend a series of conferences to better understand emerging ESG regulation and reporting requirements.

- **Financial Services Council (FSC) ESG Working Group**
  Alphinity's Head of ESG and Sustainability is a member of the FSC ESG Working Group and has been involved in providing feedback to the group as part of its response to the draft Australian Sustainability Reporting Standards proposed by the Australian Accounting Standards Board.

- **AI capability analysis**
  As part of our CSIRO partnership, we identified that director skills in AI and tech are increasingly important, both to guide business success in digital technology but also the understanding and management of cyber risk.

Sustainability governance snapshot

	Leadership awareness and capability	ESG linked remuneration	Sustainability strategy	Sustainability disclosure
2023 observations and engagement	**This has remained very material across our holdings.** The main change in 2023 was the increasing focus on how ESG is integrated into key governance structures such as Board responsibility and reporting. We also increased our engagement with Boards on key emerging topics such as Responsible AI and nature to test the awareness and capability moving forward. **Engagement priorities:** • Readiness for emerging ESG topics (e.g. nature, cyber crime, Responsible AI) • Board skills matrix and plans for changes	**This issue has increased in materiality due to the significant increase in the number of companies, especially within Australia and Europe, with ESG-linked remuneration.** At this stage, ESG factors are most commonly embedded in short-term incentives (STI) but do not always include clear performance metrics. A focus of our engagement has been to encourage more transparency on the Board's assessment of ESG related components and a shift to more measurable goals. **Engagement priorities:** • Improved disclosure related to the Board's assessment of ESG performance • Materiality of ESG factors across STI/LTI structures • Inclusion of social licence factors within clawback / malus provisions	**The materiality of this issue has remained similar in 2023.** In 2023 our engagements focussed more on implementation and the measurement of strategies. We also increased our focus on emerging ESG issues, systemic risks, and externalities such as human rights and nature. Traditionally, sustainability strategies have mostly focused on operational initiatives. While this is still important, greater focus is now being placed on product sustainability and real-world benefits and impacts such as community health and financial inclusion. **Engagement priorities:** • Targets and measures • Integration of all material issues under a single sustainability strategy including product, supply chain, and operational sustainability initiatives • Integration with broader business strategy • Management of non-operated assets	**This issue has increased in materiality in 2023 due to the growing focus on greenwashing and evolving sustainability reporting standards.** We are generally supportive of greater standardisation of sustainability reporting, however we are concerned about the increase in costs that may be required to deliver against these requirements. Our overarching goal is to encourage data driven and clear reporting against material issues. **Engagement priorities:** • Improved disclosure to cover all material issues, especially emerging areas such as psychosocial risk and data privacy • Managing the increasing compliance burden • Aligned disclosures against reporting frameworks such as SASB
Example measures	Directors with experience in ESG; Board committee with responsibility for ESG elements	Percent of remuneration allocated to ESG factors	Strategy in place with targets and measures; annual disclosure of performance	Disclosure in line with external standards; Annual disclosures

Case study

Engaging to gain clarity on how environmental and social risks are integrated in business decisions | Marsh McLennan

We believe it is best practice to publicly disclose how policies and high level commitments are implemented in practice. This is particularly important for financial companies because of the overall focus on governance. This example highlights our approach to engaging with financial companies on ESG related disclosure.

Issue: In 2022, we identified that Marsh McLennan's policy on client engagement lacked information on high-risk activities that would be subject to enhanced review or exclusions. Given the significant size and geographic reach of the company's various businesses, being exposed to one sensitive project is not likely to pose a material investment risk to the business. However, we believe that aggregating high-risk decisions across the firm over the medium-term may result in significant reputational damage.

Engagement: We engaged with Marsh to gain a better understanding of internal decision-making procedures and controls related to potentially controversial or high-risk projects, regions or clients. While we learnt that risk committees are in place to review high-risk decisions, there was limited guidance provided on the types of sensitive activities that may be excluded or reviewed more diligently.

Next steps: Our engagement with Marsh McLennan is part of a broader engagement program targeted at financials and their integration of environmental and social risk factors. For Marsh specifically, we view this risk as a medium-term ESG issue for the business and have prepared written feedback that communicates to Marsh our disclosure expectations for the 2025 reporting cycle.

Case study

Board engagement with a focus on integrating ESG components into Executive remuneration | Treasury Wine Estate, Rio Tinto, Telstra, Suncorp, Wesfarmers, Worley, Cleanaway, AGL, NAB

Remuneration structures are the mechanisms by which senior managers are incentivised to perform in line with business goals and objectives. We are very supportive of ESG factors being integrated into remuneration, however, our view is that for these structures to be effective we need to see a greater uptake of metrics that include clear performance measures. This case study summarises these views and some example engagements.

We have noted a significant increase in the number of companies, particularly across Australia and Europe, that are integrating ESG components into Executive remuneration structures. Most commonly, this integration is through the Short-Term Incentive (STI) using metrics related to health and safety, diversity and emissions reduction. However, recently there has been a shift towards greater integration into the Long-Term Incentives (LTI) as well. Generally, ESG linked LTI components are related to 2030 climate change targets or reputational measures that can be externally benchmarked.

As stated above, we support the integration of ESG factors into remuneration structures but are conscious that in some cases, the ESG component can be up to 50% of the total STI which is very material. It is therefore important that the criteria chosen by the Board to assess management's performance are measurable and reflective of the most material ESG issues.

Things we look for when assessing ESG linked remuneration are:

- A good balance of ESG factors across STI and LTI structures.
- Clear disclosure by the Board on its assessment of ESG factors including details on how management have performed against the chosen performance band
- The use of 'gates' that enable the Board to respond to significant events such as fatalities or a material controversy which impacts social licence or fatalities.

In 2023, we discussed ESG linked remuneration with company Directors from 14 companies including, Treasury Wine Estates, Rio Tinto, Telstra, Suncorp, Wesfarmers, Worley, Cleanaway, AGL and NAB.

Appendices

Appendix 1 ESG Engagement

Domestic

Company	Month	Purpose
Macquarie Group	Jul-22	AGM (climate change)
CSR	Jul-22	General ESG update
Newcrest mining	Jul-22	Culture research project; Controversy management
Iluka Resources	Jul-22	Specific ESG issue in portfolio (climate change)
Woodside Energy	Aug-22	Specific ESG issue in portfolio (climate change)
Rio Tinto	Aug-22	Reporting (social licence)
BHP	Aug-22	Reporting (social licence)
Santos	Aug-22	Reporting (climate change)
Costa	Aug-22	General ESG update
Woodside Energy	Aug-22	Reporting (climate change)
Suncorp	Aug-22	AGM (social licence)
Neurizer	Sep-22	General ESG update
Wesfarmers	Sep-22	General ESG update (climate change, human rights)
Commonwealth Bank	Sep-22	AGM (climate change)
IGO	Oct-22	General ESG update
Perpetual	Oct-22	AGM (ESG integration)
Woolworths	Oct-22	AGM (social licence)
Wesfarmers	Oct-22	AGM (data and cybersecurity)
Goodman Group	Oct-22	AGM (remuneration)
Medibank Private	Oct-22	AGM (data and cybersecurity)
Bubs Australia	Nov-22	Reporting (responsible sourcing)
South32	Nov-22	Culture research project; Controversy management
Woolworths	Dec-22	General ESG update
Brambles	Dec-22	General ESG update; Specific ESG issue in portfolio (responsible sourcing)
ANZ Bank	Dec-22	General ESG update
Brambles	Dec-22	Culture research project
ALS	Jan-23	Controversy management (sanctions)
Incitec Pivot	Feb-23	Collaborative engagement (CA100+)
Aristocrat Leisure	Feb-23	AGM (remuneration)
Aristocrat Leisure	Feb-23	AI research project
Telstra Corp	Feb-23	Reporting (social licence)
Cleanaway	Feb-23	Reporting; Specific ESG issue in portfolio (health and safety)
Woodside Energy	Mar-23	Reporting (climate change, social licence)
National Australia Bank	Mar-23	Company request; ESG feedback
Woolworths	Mar-23	Company request; Human rights feedback
BHP	Mar-23	Controversy management; Specific ESG issue in portfolio (social licence)
IGO	Mar-23	General ESG update
Liontown Resources	Mar-23	General ESG update
Cleanaway	Mar-23	General ESG update
Woolworths	Mar-23	General ESG update
Telstra Corp	Mar-23	General ESG update

Company	Month	Purpose
ANZ Bank	Mar-23	General ESG update
Cleanaway	Apr-23	Controversy management
Costa	Apr-23	General ESG update
Woodside Energy	Apr-23	AGM (climate change, social licence)
Aristocrat Leisure	Apr-23	Specific ESG issue in portfolio (modern slavery and human rights)
Fortescue Metals	Apr-23	Specific ESG issue in portfolio (corporate governance)
Viva Energy	May-23	AGM (climate change, health and safety)
Treasury Wine	May-23	AGM (ESG integration)
Macquarie Group	May-23	General ESG update
Cleanaway	May-23	General ESG update
Bluescope Steel	May-23	General ESG update
ANZ Bank	May-23	General ESG update
National Australia Bank	May-23	General ESG update
Santos	May-23	Specific ESG issue in portfolio; Controversy management (human rights)
Brambles	May-23	General ESG update; Specific ESG issue in portfolio (responsible sourcing)
Santos	May-23	Specific ESG issue in portfolio; Controversy management (human rights)
Wesfarmers	May-23	AI research project
Fortescue Metals	May-23	AI research project
Westpac Banking Corp	Jun-23	General ESG update
ANZ Bank	Jun-23	Specific ESG issue in portfolio; Research project (DEI)
APM Human Services	Jun-23	Company request; ESG feedback
Brambles	Jun-23	Company request; ESG feedback
Commonwealth Bank	Jun-23	AI research project
Challenger	Jun-23	AI research project
Bluescope Steel	Jun-23	AI research project
ANZ Bank	Jun-23	General ESG update
Westpac Banking Corp	Jun-23	Specific ESG issue in portfolio (sustainable finance)
Commonwealth Bank	Jun-23	General ESG update
Nine Entertainment	Jun-23	AI research project
Wesfarmers	Jun-23	Specific ESG issue in portfolio (modern slavery and human rights)
Mirvac	Jun-23	AI research project
BHP	Jun-23	General ESG update (climate change, health and safety)
IGO	Jun-23	General ESG update
Telstra Corp	Jun-23	Specific ESG issue in portfolio
Rio Tinto	Jul-23	Collaborative engagement; Specific ESG issue in portfolio (culture); Controversy management
Transurban	Jul-23	AI research project
Santos	Jul-23	AI research project
Worley	Jul-23	AI research project
Insurance Australia	Jul-23	AI research project
Westpac Banking Corp	Jul-23	AI research project
Worley	Jul-23	Specific ESG issue in portfolio (climate change)
Woodside Energy	Jul-23	AI research project
Xero	Aug-23	AGM (remuneration)
ANZ Bank	Aug-23	AI research project
ASX	Aug-23	AI research project
Incitec Pivot	Sep-23	Collaborative engagement (climate change)

Company	Month	Purpose
Qantas Airways	Sep-23	Controversy management (social licence)
Wesfarmers	Sep-23	General ESG update
Woolworths	Sep-23	General ESG update
Rio Tinto	Sep-23	AGM; Controversy management (culture, remuneration)
Telstra Corp	Sep-23	AGM (remuneration)
Rio Tinto	Sep-23	Controversy management (social licence)
CSL	Sep-23	AGM (ESG integration)
Woolworths	Sep-23	AGM; Specific ESG issue in portfolio (health and safety)
Commonwealth Bank	Sep-23	AGM (climate change, remuneration)
Suncorp	Sep-23	AGM (remuneration, climate change)
Santos	Oct-23	Controversy management (social licence)
Qantas Airways	Oct-23	AGM; Controversy management (social licence, corporate governance)
Wesfarmers	Oct-23	AGM (remuneration)
APM Human Services	Oct-23	ESG due diligence
Technology One	Oct-23	AI research project
Macquarie Group	Oct-23	AI research project
Worley	Oct-23	AGM (climate change)
Brambles	Oct-23	General ESG update; Specific ESG issue in portfolio (responsible sourcing)
CAR Group	Oct-23	AGM (remuneration, corporate governance)
Medibank Private	Oct-23	AGM (remuneration, ESG integration)
Cleanaway	Oct-23	AGM (remuneration, health and safety)
AGL Energy	Oct-23	AGM (remuneration, climate change)
CSL	Nov-23	Specific ESG issue in portfolio (community impact)
National Australia Bank	Nov-23	AGM (climate change)
Commonwealth Bank	Dec-23	Company request; ESG feedback
BHP	Dec-23	Collaborative engagement (PRI Advance); Specific ESG issue in portfolio (modern slavery and human rights)

Global

Company	Month	Purpose and main ESG topics
Henry Schein	Jul-22	Sustainability due diligence
Zurich Financial Services	Jul-22	General ESG update
Aker Carbon Capture	Jul-22	Sustainability due diligence
DBS Group Holdings	Jul-22	General ESG update
SwissRe	Jul-22	General ESG update
Deutsche Boerse AG	Jul-22	General ESG update
Marsh & Mclennan	Aug-22	ESG due diligence; Sustainability due diligence
Shell PLC	Aug-22	General ESG update
Nextera Energy	Aug-22	Specific ESG issue in portfolio (climate change)
Boston Scientific	Aug-22	ESG due diligence; Sustainability due diligence
Shell PLC	Aug-22	Research project (workplace culture)
Procter & Gamble	Aug-22	General ESG update (responsible sourcing, packaging)
Edwards Lifesciences Corp	Aug-22	General ESG update
Nutrien	Aug-22	Sustainability due diligence
Waste Connections	Aug-22	Specific ESG issue in portfolio (climate change)
Shell PLC	Aug-22	General ESG update
Zoetis	Aug-22	General ESG update
SSAB	Sep-22	Sustainability due diligence
Wells Fargo	Sep-22	Specific ESG issue in portfolio; Controversy management
Yara	Sep-22	Sustainability due diligence
MercadoLibre	Sep-22	ESG due diligence
Ormat Technologies	Sep-22	Sustainability due diligence; ESG due diligence
Sprouts Farmers Markets	Sep-22	Sustainability due diligence; ESG due diligence
Norsk Hydro	Sep-22	ESG due diligence; Sustainability due diligence
Carlisle	Oct-22	Sustainability due diligence
American Tower	Oct-22	Sustainability due diligence; ESG due diligence
Japan Exchange	Oct-22	General ESG update
Shell PLC	Nov-22	General ESG update
Albemarle	Nov-22	Specific ESG issue in portfolio (water, community impact)
Fortinet	Nov-22	General ESG update
Colgate-Palmolive	Nov-22	General ESG update
Intuitive Surgical	Nov-22	Specific ESG issue in portfolio (product quality); General ESG update
MasterCard	Nov-22	Controversy management (social licence)
Shell PLC	Nov-22	General ESG update
Stericycle	Dec-22	Sustainability due diligence; Controversy management
Allegion	Dec-22	ESG due diligence; Sustainability due diligence
Waste Connections	Dec-22	General ESG update
Unilever	Dec-22	General ESG update
Danaher	Dec-22	General ESG update
Assa Abloy	Dec-22	Sustainability due diligence; ESG due diligence; Controversy management
Keysight	Jan-23	General ESG update
Accenture	Jan-23	Specific ESG issue in portfolio (labour management); Controversy management
Freeport-McMoran	Jan-23	ESG due diligence; Controversy management
Graphic Packaging	Jan-23	Sustainability due diligence; ESG due diligence
Atlas Copco	Feb-23	Controversy management; ESG due diligence; Sustainability due diligence

Company	Month	Purpose and main ESG topics
Zoetis	Feb-23	Specific ESG issue in portfolio (antimicrobial resistance); Collaborative engagement
Starbucks	Feb-23	Specific ESG issue in portfolio (modern slavery and human rights)
Schneider Electric	Mar-23	General ESG update
Nestle	Mar-23	Specific ESG issue in portfolio (modern slavery and human rights)
Trane Technologies	Mar-23	Controversy management; Specific ESG issue in portfolio (product quality)
Albemarle	Mar-23	Specific ESG issue in portfolio (workplace culture)
Sandvik	Mar-23	ESG due diligence
Agilent Technologies	Mar-23	General ESG update
Antofagasta	Mar-23	Sustainability due diligence; ESG due diligence
AirBNB	Apr-23	Specific ESG issue in portfolio; Controversy management (social licence)
AXA	Apr-23	Sustainability due diligence; ESG due diligence
Zoetis	Apr-23	General ESG update
Chubb	May-23	ESG due diligence
Marsh & Mclennan	May-23	ESG due diligence; Sustainability due diligence
Linde	May-23	Sustainability due diligence; ESG due diligence
MasterCard	May-23	Controversy management; Specific ESG issue in portfolio (social licence)
Apple	May-23	General ESG update
Essilor Luxottica	May-23	General ESG update
Freeport-McMoran	May-23	AGM; General ESG update
Linde	May-23	Sustainability due diligence
Wells Fargo	May-23	Specific ESG issue in portfolio; Controversy management
WEG	May-23	ESG due diligence; Sustainability due diligence
Essilor Luxottica	Jun-23	General ESG update
Walmart	Jun-23	Sustainability due diligence; ESG due diligence
Keysight	Jul-23	AI research project
Siemens Energy	Jul-23	AI research project
Shell PLC	Jul-23	AI research project
Walmex	Jul-23	Sustainability due diligence; ESG due diligence
Tokyo Electron	Jul-23	AI research project
Accenture	Aug-23	AI research project
Microsoft	Aug-23	AI research project
ON Semiconductor	Aug-23	General ESG update
Marsh & Mclennan	Aug-23	Controversy management; Specific ESG issue in portfolio (ESG integration)
Arch Capital	Aug-23	Sustainability due diligence; ESG due diligence
Motorola Solutions	Aug-23	Sustainability due diligence; ESG due diligence
Bank of America	Aug-23	General ESG update; Controversy management
Novo Nordisk	Aug-23	Controversy management; Specific ESG issue in portfolio (product quality)
MercadoLibre	Sep-23	AI research project; Specific ESG issue in portfolio (product quality)
Ferrari	Sep-23	General ESG update; AI research project
Haleon PLC	Sep-23	Controversy management; General ESG update
HDFC Bank	Sep-23	Sustainability due diligence; ESG due diligence
EQT	Sep-23	Sustainability due diligence
Otis Elevators	Sep-23	Specific ESG issue in portfolio (safety)
Motorola Solutions	Sep-23	AI research project
ConocoPhillips	Oct-23	Specific ESG issue in portfolio (climate change)
Freeport-McMoran	Nov-23	Specific ESG issue in portfolio (human rights, pollution)

Company	Month	Purpose and main ESG topics
Reinsurance Group of America	Nov-23	ESG due diligence; Sustainability due diligence
Linde	Nov-23	Specific ESG issue in portfolio (climate change)
Cadence	Dec-23	General ESG update
Freeport-McMoran	Dec-23	Specific ESG issue in portfolio (human rights, community impact); Collaborative engagement (PRI Advance)
Quanta	Dec-23	General ESG update (safety, climate change)
AO Smith	Dec-23	Sustainability due diligence
Chubb	Dec-23	Specific ESG issue in portfolio (climate change)

Appendix 2 Company SDG Alignment

Domestic																		
Company	Positive SDG alignment										Negative SDG alignment								Net SDG score quartile
	High contribution (SDG score >50%)				Low contribution (SDG score <50%)						High contribution (SDG score > -50%)				Low contribution (SDG score < -50%)				
Communication services																			
CAR Group					8	12													3
Seek	8																		1
Spark New Zealand					17	8													2
Telstra	17																		4
Consumer discretionary																			
Carbon Revolution					9	11									12				4
JB Hi-Fi					4	8									12				4
Super Retail					3	11									12	15			4
Wesfarmers					2	4	8	10	11	9					13	6	12	2	4
Consumer staples																			
Bubs Australia	2	3																	1
Costa	2	3			10										6	12			2
Woolworths	2				3	10									12	3			4
Financials																			
ANZ Bank	1				8										13				2
Commonwealth Bank of Australia	1				8										13				2
HUB24					8														4
Judo Capital	8				10														2
Liberty Financial	1				8	10													1
Macquarie Group	8				1										13				4
Medibank Private	3																		3
National Australia Bank					1	8									13				2
Perpetual					8										13				4
QBE Insurance	8																		3
Steadfast Group	8																		3
Suncorp	8	11																	1
Westpac Banking Corp	1				8										13				2
Health care																			
Cochlear	3	4			10														1
CSL	3														12				1
Fisher & Paykel Healthcare	3																		1
Ramsay Health Care	3				11										11				1
Sonic Healthcare	3														12				3

Industrials																			
ALS					2	3	6	7	9	12					12	13			4
Brambles	8				9														2
Cleanaway	11				6	9									12				2
Fluence Corp	6	9	11																1
Qantas Airways	8				10						13								4
Qube					8	9									7	13			3
Seven	9				7	12	13								13	14	15	17	4
Transurban	11				8	9									12	13	15		4
Information technology																			
Data#3	8																		3
Life360	16																		3
Technology One					4	8													3
Xero	8				9														2
Materials																			
BHP	9	11			7	13									6	13	15		4
Deterra Royalties	9	11			13										6	13	15		3
Fortescue Metals	9	11			13										6	15	13		2
IGO	9				11	7									6	13			1
Iluka Resources	9				11										6	13			3
James Hardie	11																		3
Lynas Rare Earths	9	11			7						6				12	13			1
Mineral Resources	9	11	13		7						13				6				1
Orora					8	12									12				3
Pilbara Minerals	7	9	11												6	13			1
Rio Tinto	9				7	11	13								6	13	15		2
Sierra Rutile	9				11														2
Sims	9	12																	1
Real estate																			
Goodman Group	9				8										12				3
Lifestyle Communities	3				10	11													1

Global

Company	Positive SDG alignment								Negative SDG alignment								Net SDG score quartile
	High contribution (score >50%)				Low contribution (score <50%)				High contribution (score > -50%)				Low contribution (score < -50%)				
Communication services																	
Alphabet	8				4	17							12	16			2
Consumer discretionary																	
AirBNB	8				5	10							11				2
MercadoLibre	8				1	10							12				1
Mercedes-Benz					9	11	13						13				4
Nike	3												12				4
Tesla	9	11	13		7												1
Consumer staples																	
Kerry Group	9	12			3								3				2
Procter & Gamble	3				5	9							12	14			4
Financials																	
Arch Capital	8				10	11											3
Chubb	8				1	2	11										3
DBS Group Holdings					1	10	8						13				3
Deutsche Boerse AG	8				10	12	13	17					13				3
ING	1				8								13				3
London Stock Exchange	8																4
MasterCard					8												4
MSCI Inc					8	12	17	13									4
Partners Group	8				7	9							13				3
Health care																	
Agilent Technologies	9				3								13				2
Danaher	9	3			6								12				2
Edwards Lifesciences Corp	3																1
Essilor Luxottica	3				4												2
Intuitive Surgical	3	9															1
Merck & Co	3																1
Novo Nordisk	3				5												1
UnitedHealth Group	3												3				4
Zoetis					2	3							3				4
Industrials																	
Advanced Drainage Systems	6	9			2	12											1
Ferguson					9	11											4
Otis Elevators	11				9												2
Quanta	7	9			13								13				1
Schneider Electric	7	9	13														1
Trane Technologies	9																4
Waste Connections	11				7	12							13	12			2

Information technology																	
Accenture	8				3								13	16			4
Apple	8				4	10							12				4
ASML	8	9															1
Cadence	8	9															2
Fortinet	16				9												2
Keysight					9	8											3
Microsoft	8				4								3	13			3
Motorola Solutions	16				9												2
NVIDIA	8	9			11								3				2
ON Semiconductor	9				11	8							6				1
Samsung SDI	7	9	13										12				1
SK Hynix	8	9											6				3
Materials																	
Albemarle	9	7			11				6				13				2
Linde					3	6	9						13	3			4
Sika	9	11			13								6				2
Real estate																	
American Tower	8				9	10	17						13				3
Prologis	9				8								12				2
Utilities																	
Nextera Energy Partners	7	11	13		9								13				1

Appendix 3 TCFD Disclosure

TCFD category	Disclosure	Addressed	Reference and comments
Governance	a. Describe the Board's oversight of climate-related risks.	Yes	See the Climate Change Statement
	b. Describe management's role in assessing and managing climate-related risks and opportunities.	Yes	See the Climate Change Statement
Strategy	a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long-term.	Yes	See the Climate Change Statement
	b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Yes	See the Climate Change Statement
	c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Partially	Using company emissions reduction targets and projected revenues, we estimated the emissions intensity of two Alphinity strategies for the year 2030. This exercise provided valuable insights into the transition risk of our portfolios and is an important building block for a larger scenario analysis project in 2024 that will support our NZAM commitment and a key TCFD component.
Risk management	a. Describe the organisation's processes for identifying and assessing climate-related risks.	Yes	See the Climate Change Statement and a summary in the climate change section of this report
	b. Describe the organisation's processes for managing climate-related risks.	Yes	See the Climate Change Statement and a summary in the climate change section of this report
	c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Yes	See the Climate Change Statement
Metrics and targets	a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Yes	See the climate change section of this report
	b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	Yes	See the climate change section of this report
	c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	No	We are considering the possibility of setting targets related to climate change. As yet, no definitive commitment has been made.

Appendix 4 Carbon Metrics

Top 5 carbon contributors per fund (by carbon intensity)

	Net Zero	Interim Targets	TCFD	FY23 progress
Australian Share Fund				
AGL Energy	2050	Y	Y	Achieved 18.5% reduction in scope 1 and 2 emissions in FY23 compared to a FY19 baseline. Target to exit coal generation by the end of FY35. Closed Liddell Power Station in 2023. Developing a decarbonisation pathway to meet ambition of net zero Scope 3 emissions by 2050.
South32	2050	Y	Y	South32's absolute scope 1 and 2 emissions increased 1.4% between FY22 and FY21. South32 is progressing efficiency initiatives at its four main operating sites as part of its near-term decarbonisation activities.
Santos	2040	Y	Y	Santos' net equity Scope 1 and 2 emissions intensity has decreased by approximately 20% since 2017-18. The company has invested $170 million in Climate Transition Action Plan initiatives. Moomba CCS is 80% complete with first injection targeted for mid-2024.
Rio Tinto	2050	Y	Y	Achieved 6% reduction in scope 1 and 2 emissions compared to a 2018 baseline. Rio Tinto has committed $425 million into decarbonisation spend and made project commitments which will deliver abatement of around 2 million tons of carbon equivalents per year, mostly in renewable energy contracts and biofuels deployment.
Iluka Resources	2050	Y	Y	Iluka's absolute scope 1 and 2 emissions increased in 2023 9% compared to 2022. On an intensity basis (tCO2e/tonne of product), emissions increased by 1% in 2023 compared to 2022.
Concentrated Australian Share Fund				
AGL Energy	2050	Y	Y	See above
South32	2050	Y	Y	See above
Rio Tinto	2050	Y	Y	See above
Iluka Resources	2050	-	Y	See above
Woodside Energy	2050	Y	Y	Net scope 1 and 2 emissions have decreased by 12.5% compared to a 2016 baseline. Woodside has a target to invest $US5 billion into clean energy projects by 2030.
Australian Sustainable Share Fund				
Rio Tinto	2050	Y	Y	See above
Iluka Resources	2050	Y	Y	See above
Cleanaway	2050	Y	Y	Achieved 5% reduction in net scope 1 and 2 emissions between 2022 and 2023. Cleanaway improved the efficiency of landfill gas capture by 15% across its portfolio of landfills.
Qantas Airways	2050	Y	Y	Scope 1 and Scope 2 emissions increased in 2023 compared with 2022 due to return to pre-COVID travel levels. Emissions reduction initiatives include the roll-out of an energy efficient fleet, the Qantas Climate Fund, and investments in biofuel projects.
BHP	2050	Y	Y	Achieved 11% reduction in scope 1 and 2 emissions between FY22 and FY23. BHP is pursuing renewable energy and energy efficiency measures, alongside scope 3 targets to reduce emissions in steelmaking and shipping.

	Net Zero	Interim Targets	TCFD	FY23 progress
Global Equity Fund (Managed Fund)				
Nextera Energy	2045	Y	Y	Achieved 2% reduction in scope 1 and 2 emissions in 2022. Nextera Energy has committed to real zero by 2045 and investing in decarbonising the US electricity market.
Linde	2050	Y	Y	Achieved 3% reduction in scope 1 and 2 emissions in 2022. Linde has committed to reducing emissions 35% by 2035 and invest a third of its research and development budget into decarbonisation solutions.
Waste Connection	-	Y	Y	Achieved 14% reduction in scope 1 and 2 emissions between FY22 and FY23. Waste Connections then doubled the 2030 emissions target from 15% to 30%. This operational emissions strategy is supported by recycling, biogas and electric transport initiatives.
On Semiconductor	2040	Y	Y	Achieved 51% reduction in scope 1 and 2 emissions between FY21 and FY22. OnSemi is pursuing renewable energy and process improvements to reach its net zero by 2040 goal.
Freeport McMoran	-	Y	Y	Scope 1 and 2 emissions increased by 7% due to higher production rates. Freeport has four 2030 emissions targets that are targeted to specific assets, two of which are intensity based and the other two being absolute.
Global Sustainable Equity Fund (Managed Fund)				
Linde	2050	Y	Y	See above
Waste Connections	-	Y	Y	See above
On Semiconductor	2040	Y	Y	See above
SK Hynix	2050	Y	Y	Achieved 6% reduction in scope 1 and 2 emissions between 2021 and 2022. In 2022, SK Hynix sourced 30% of its global electricity use via renewable electricity, marking a significant increase compared from 4% in 2021.
American Tower	-	Y	Y	Achieved a 9.5% reduction in scope 1 and 2 emissions compared to a 2019 baseline. American Tower grew on-site renewable energy capacity to over 85 megawatts at 15000 sites.

Source: Company reporting, Sustainalytics carbon data to determine largest carbon contributors over the period (taking into account holding period and size).

Financed Emissions for all Alphinity funds

	Weighted Average Carbon Intensity (tonnes CO2e/$USm revenue)			**Carbon Footprint** (tonnes CO2e/$USm invested)			**Total Carbon Emissions** (tonnes CO2e)		
	FY21	**FY22**	**FY23**	**FY21**	**FY22**	**FY23**	**FY21**	**FY22**	**FY23**
Domestic Combined	**192**	**244**	**152**	**92**	**96**	**155**			
Australian Share Fund	195	275	169	93	106	176			
Concentrated Australian Share Fund	198	268	173	95	104	195			
Sustainable Share Fund	125	99	84	65	51	38			
Global Combined	**30**	**186**	**107**	**8**	**14**	**26**			
Global Equity Fund (Managed Fund)	81	186	93	14	28	23			
Global Sustainable Equity Fund (Managed Fund)	22	62	86	7	27	17			
Alphinity Combined	**148**	**222**	**122**	**69**	**70**	**70**	**992 994**	**787 895**	**1 250 785**

FY21 and FY22 source: Alphinity, MSCI carbon data as at 30 June 2021 and 30 June 2022
FY23 source: Alphinity, Sustainalytics carbon data as at 31 December 2023
Total carbon emissions are not disclosed at the fund level. The TCFD recommendations state that this metric is generally not used to compare portfolios because the data is not normalised.

Independent Limited Assurance Report to the Directors of Alphinity Investment Management

Conclusion

Based on the evidence we obtained from the procedures performed, we are not aware of any material misstatements in the selected narrative disclosures and key performance indicators in the 2023 ESG and Sustainability Report, which has been prepared by Alphinity Investment Management in accordance with Alphinity policies, procedures, and methodologies the Criteria for the reporting period 1 July 2022 to 31 December 2023.

Information Subject to Assurance

The selected narrative disclosures and key performance indicators as presented in the 2023 ESG and Sustainability Report of Alphinity Investment Management (the "Company") and available on the Company's website, comprised the following:

Selected narrative disclosures and key performance indicators	Value Assured	Reference in Report
Total carbon emissions (tonnes CO_2e)	1,250,785	Appendix 4
Carbon footprint of investment portfolio (CO_2e/$USm invested)	70	Appendix 4
Domestic	155	
Global	26	
Weighted average carbon intensity (CO_2e/$USm revenue)	122	Appendix 4
Domestic	152	
Global	107	
Net SDG Alignment Score (Company Level)	Various	Appendix 2
Domestic Weighted portfolio SDG Alignment Score	Graph	P29
Global Weighted portfolio SDG Alignment Score	Graph	P29
Selected narrative disclosures in relation to the Alphinity Sustainable Development Goal (SDG) Alignment Framework over investment portfolios.		P27-29

Criteria Used as the Basis of Reporting

The criteria used in relation to the 2023 ESG and Sustainability Report are Alphinity's policies, procedures, and methodologies *("the criteria") as described at:*

- Alphinity's SDG Alignment Framework (outlined in the ESG and Sustainability Report 2023), and
- The Task Force on Climate-Related Financial Disclosures (TCFD) recommendations for carbon metrics

Basis for Conclusion

We conducted our work in accordance with Australian Standard on Assurance Engagements ASAE 3000 (Standard). In accordance with the Standard we have:

- used our professional judgement to plan and perform the engagement to obtain limited assurance that we are not aware of any material misstatements in the information subject to assurance, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however we do not express a conclusion on their effectiveness; and
- ensured that the engagement team possess the appropriate knowledge, skills and professional competencies.

Summary of Procedures Performed

Our limited assurance conclusion is based on the evidence obtained from performing the following procedures:

- enquiries with relevant Alphinity personnel to understand the internal controls, governance structure and reporting process of the [information subject to assurance;
- reviews of relevant documentation including the SDG Alignment Framework and ESG indicators;
- analytical procedures over the SDG Alignment Framework and ESG indicators;
- walkthroughs of the SDG Alignment Framework and ESG indicators to source documentation;
- evaluating the appropriateness of the criteria with respect to the SDG Alignment Framework and ESG indicators; and
- reviewed the 2023 ESG and Sustainability Report in its entirety to ensure it is consistent with our overall knowledge of assurance engagement.

How the Standard Defines Limited Assurance and Material Misstatement

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Misstatements, including omissions, are considered material if, individually or in the aggregate, they could reasonably be expected to influence relevant decisions of the Directors of Alphinity.

Use of this Assurance Report

This report has been prepared for the Directors of Alphinity for the purpose of providing an assurance conclusion on the SDG Alignment Framework and ESG indicators and may not be suitable for another purpose. We disclaim any assumption of responsibility for any reliance on this report, to any person other than the Directors of Alphinity, or for any other purpose than that for which it was prepared.

Management's responsibility

Management are responsible for:

- determining that the criteria is appropriate to meet their needs
- preparing and presenting the SDG Alignment Framework and ESG indicators in accordance with the criteria; and
- establishing internal controls that enable the preparation and presentation of the SDG Alignment Framework and ESG indicators that is free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to perform a limited assurance engagement in relation to the SDG Alignment Framework and ESG indicators for the reporting period 1 July 2022 to 31 December 2023, and to issue an assurance report that includes our conclusion.

Our Independence and Quality Control

We have complied with our independence and other relevant ethical requirements of the *Code of Ethics for Professional Accountants (including Independence Standards)* issued by the Australian Professional and Ethical Standards Board, and complied with the applicable requirements of Australian Standard on Quality Control 1 to maintain a comprehensive system of quality control.

KPMG

KPMG

18 April 2024

alphinity

INVESTMENT MANAGEMENT