Alphinity Global Sustainable Equity Fund Charter

alphinity
INVESTMENT MANAGEMENT

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Society faces significant challenges to achieve sustainable development: climate change; socioeconomic issues such as growing disparities in income, wellbeing and living standards; ageing populations, gender inequalities, unemployment; global health threats; natural resource depletion; environment degradation and so on. These challenges also bring some opportunities. We are committed to supporting those companies which our research shows are doing good and avoiding those we believe are not.

We seek to invest in companies which can have a net positive alignment with one or more of the 17 United Nations Sustainable Development Goals (SDGs), exceed Alphinity's minimum ESG criteria[1], and which are also identified as undervalued and within an earnings upgrade cycle. This might include activities such as:

- Combating poverty through enhancing food security, improved nutrition and sustainable agriculture (SDG 1 No Poverty and SDG 2 Zero Hunger)
- Promoting healthier lives and well-being for all people of all ages (SDG 3 Good Health and Wellbeing)
- Providing quality education which is inclusive and equitable (SDG 4 Quality Education)
- Promoting gender equality and diversity (SDG 5 Gender Equality)
- Promoting sustainable cities and the development of sustainable human settlements (SDG 11 Sustainable Cities and Communities
- Promoting inclusive, and sustainable economic growth, as well as full and decent employment (SDG 8 Decent Work and Economic Growth and SDG 10 Reduced Inequalities)
- Building resilient infrastructure, promoting inclusive and sustainable industrialisation (SDG 9 Industry, Innovation and Infrastructure)
- Promoting sustainable consumption and production patterns (SDG 12 Responsible Consumption and Production)
- Combatting climate change and its impacts (SDG 13 Climate Action)
- Promoting affordable, reliable, and sustainable energy production (SDG 7 Affordable and Clean Energy)
- Conserving biodiversity, forests, rivers, and the oceans in a sustainable manner (SDG 14 Life under water and SDG 15 Life on land)
- Providing sustainable management of water and sanitation (SDG 6 Clean water and Sanitation)

A company's alignment with the SDGs is assessed using an in-house assessment methodology. This methodology quantitatively aligns the positive and negative contributions that the company's products and services makes towards the SDGs to arrive at a net score.

We seek to avoid companies that are involved in activities we consider incompatible with the objectives of the fund, as they may be harmful to society and/or inconsistent with the achievement of the UN Social Development Goals. We therefore have a zero revenue tolerance for producers of tobacco[2] and controversial weapons.[3] We also don't support companies which generate more than 5% of their revenues (cumulative) from producing in the following areas:

- Fossil fuels (including extraction, production and electricity production from energy coming from fossil fuels), such as Thermal Coal, Natural Gas and Oil, unless the company has a clear and credible commitment to divest from the use of fossil fuels within a reasonable timeframe. This divestment commitment should also be supported by clear emissions reduction targets and commitments which are compatible with the Paris Agreement (i.e. net zero by 2050);
- High-impact fossil fuels such as Coal Seam Gas, Oil Sands and those drilling in Arctic regions, regardless of any emissions commitments they might make;
- Production of controversial fuels such as Uranium;
- Gold mining, where Gold is the primary purpose of the mine;
- Factory farming, animals in entertainment, live exports and animal testing for cosmetic products, as well as other activities which are associated with animal welfare concerns. For healthcare, we tolerate testing only where necessary, that is where the benefits to humans are significant and procedures meet internationally recognised standards. We also require policies related to animal testing are in place;
- Predatory lending and hostile debt collection[4];
- Addictions such as Alcohol and Gambling;
- Old growth forest logging and non-RSPO palm oil; and
- Pornography.

We also avoid companies which display poor practices in their management of environmental, social and governance issues, and are involved in significant controversies which are not being adequately managed. This is assessed using our in-house ESG assessment methodology and process.

Companies must be approved by the Global Sustainable Compliance Committee to be included in the Fund. The role of the committee is to provide oversight and governance of the investable universe for the Fund and to help ensure compliance with this Charter.

When faced with a 'grey' area, the Global Sustainable Compliance Committee will assess the matter on its merits and determine whether we can support the company's activities.

Companies which meet our stringent conditions are then assessed against Alphinity's investment philosophy & process to ensure they are quality, undervalued companies in or entering an earnings upgrade cycle, and therefore candidates for our portfolio.

As active owners we engage regularly with the management of current and prospective investee companies to better assess how they meet the requirements of the Charter and to indicate our views of where they need to improve their performance if this is required. We also vote the Fund's shares in line with the principles of this Charter.

We monitor the ESG and sustainability characteristics of the Fund on an ongoing basis. Further information on case studies and performance can be viewed in the monthly and quarterly fund commentaries, and the annual ESG and Sustainability Report.

1 'minimum ESG criteria' is assessed using an in-house methodology and process and in line with our ESG Policy.

2 The Fund has zero revenue tolerance for tobacco producers (companies involved in the production of tobacco, manufacture of nicotine alternatives and tobacco-based products).

3 Production of controversial weapons, including nuclear weapons.

4 Predatory loans are characterised by:
- Excessively high set up costs which are included in the principal of the loan
- Involvement of one or more intermediaries
- High ongoing interest rate and default interest rate
- Swift enforcement action
- False categorisation as a business or investment loan
- No access to alternative dispute resolution
- Reliance on assets rather than income to meet loan repayments.

For the avoidance of doubt, Predatory Lending does not include the issuance of mainstream credit cards. Predatory Lending refers to lending to consumers at very high annualised interest rates, which can exceed 50% p.a.