

# Guide to our Ethical Investment Process

AUSTRALIAN ETHICAL

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This Guide to our Ethical Investment Process (**Ethical Guide**) has been prepared by Australian Ethical Investment Ltd (ABN 47 003 188 930, AFSL 229949).

**Important Information:**

The information in this document forms part of the Product Disclosure Statement (**PDS**) for each of the Australian Ethical Managed Funds set out below and the Australian Ethical Retail Superannuation Fund (ABN 49 633 667 743, USI AET0100AU (**Australian Ethical Super**) (referred to as '**Funds**' or in the case of each individual Fund, a '**Fund**') effective 15 September 2023 and 29 September 2023.

The information in this Ethical Guide is general information only and does not take into account your personal financial situation, objectives or needs. You should obtain financial advice tailored to suit your personal circumstances. You should read the applicable PDS and Additional Information Booklet in conjunction with this Ethical Guide before making a decision about a Fund or Australian Ethical Super.

The information in this Ethical Guide is current as at the issue date. However, information in this Ethical Guide is subject to change and may be updated by us from time to time. A copy of this Ethical Guide is available at [www.australianethical.com.au/managed-funds/documents/](http://www.australianethical.com.au/managed-funds/documents/) and [www.australianethical.com.au/super/pds-forms/](http://www.australianethical.com.au/super/pds-forms/)

**Australian Ethical Managed Funds**

- Australian Ethical Income Fund ARSN 089 919 120
- Australian Ethical Fixed Interest Fund ARSN 166 048 184
- Australian Ethical Balanced Fund ARSN 089 919 255
- Australian Ethical High Growth Fund ARSN 140 444 211
- Australian Ethical Diversified Shares Fund ARSN 089 919 166
- Australian Ethical International Shares Fund ARSN 124 861 338
- Australian Ethical Australian Shares Fund ARSN 089 919 175
- Australian Ethical Emerging Companies Fund ARSN 606 254 157
- Australian Ethical Moderate Fund ARSN 669 470 393
- Australian Ethical High Conviction Fund ARSN 653 076 236

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# 1 What's in this Ethical Guide:

## *The ethics in our investment process*

This Ethical Guide outlines the ethical aspects of Australian Ethical's investment process, with a focus on the Ethical Criteria we apply to our ethical evaluation of potential investments. The Ethical Criteria are a mix of prescriptive rules alongside more qualitative criteria which guide our consideration of impacts on people (including workers) and on animals and the environment when we are ethically evaluating companies and other potential investments. The Ethical Guide sets out material information about Australian Ethical's consideration of environmental, social and ethical factors including labour standards in the selection, retention and realisation of investments.

Our ethical evaluation process and Ethical Criteria are important because we implement the investment strategies for the Australian Ethical Managed Funds and the investment options of Australian Ethical Super by targeting investments which are consistent with both:

1. our Ethical Criteria, and
2. the investment strategy and objectives of each Fund.

This Ethical Guide focusses on the Ethical Criteria, and you should read the applicable PDS and Additional Information Booklet for information about the investment strategy and objective of a Fund.

## 2 Summary

This document describes our ethical investing approach, and we recommend that you read it to get the full picture. To set the scene, we first present a snapshot for you in this section.

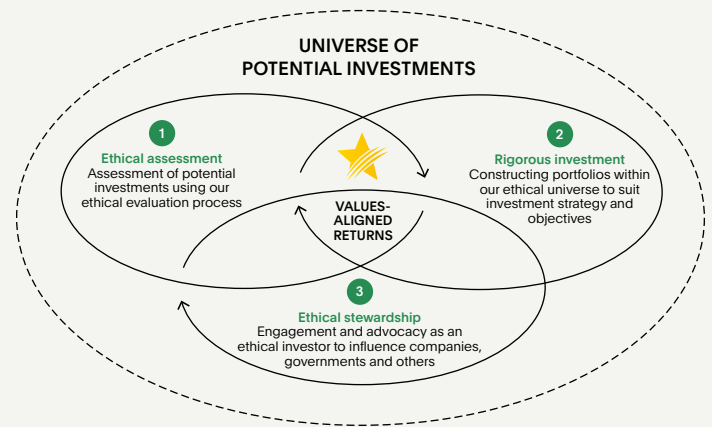
Our ethical investing approach aims to:

- Give investors access to ethically screened portfolios of companies and other investments which are more aligned with their values than market portfolios
- Influence progress towards a better future for people, animals and the environment by engaging with select companies to improve key business practices
- Help us identify, understand and manage investment risk and opportunity, at a company, portfolio and systemic level which we believe can help construct better investment portfolios.

There's more information on our aims and potential obstacles to achieving them in section 3 'Our ethical investing goals and approach'.

Our investment process involves:

- **Ethical assessment** – Our inhouse Ethics Research team assess possible investments<sup>1</sup> according to the 23 principles of our Ethical Charter, using our ethical evaluation process and applying a mix of rules and judgement to bring these to life. This process identifies companies we believe can influence progress towards a better future for people, animals and the environment, and restricts investment in those that we believe are a threat to that progress. This research defines our universe of potential ethical investments.
- **Investment analysis and construction** – Our investment team then constructs portfolios suitable for the investment strategies and objectives of our Funds.
- **Ethical stewardship** – We don't just set and forget. Monitoring our investee companies and engaging to influence companies, governments and others is an important part of our process.



### Ethical Assessment

Ethical assessment isn't black and white, for example when we think about the listed companies we might invest in, some are complex and may have different business lines, some of which meet our Ethical Criteria and some of which don't. This is why we have an Ethics Research team, and why we use Ethical Criteria to help us decide which potential investments can enter our investible universe.

To pass our ethical screen an investment must first be assessed as having positive activities assessed against the principles of our Ethical Charter. If they meet our positive activity requirements after this assessment but have other negative impacts from their products or operations, we look at where their revenue comes from, and assess this against our revenue tolerance thresholds and other Ethical Criteria.

For example, we won't invest in a company making weapons or tobacco products because we have a zero revenue threshold for these activities, but if a large, diverse company is positive in other parts of its business, our tolerance thresholds allow some limited revenue from some negative products such as alcohol or fossil fuels. For example, we may invest in a company which generates over 70% of its electricity from renewables but falls back on gas when low rainfall reduces its hydropower.

We also consider how closely a potential investment is involved in activities we consider harmful under our Ethical Criteria. For example, we treat a producer of harmful products differently to a company which sells or transports harmful products along with other products. This allows us to invest, for example, in the supermarket that on balance provides a positive social impact even though they derive a small amount of their revenue from retailing cigarettes and alcohol.

We also consider how an investment conducts its business, evaluating serious misconduct, as well as potential benefit and harm from its products and operations. For example, a company or investment which produces positive products may still be excluded if they are mistreating workers or causing unnecessary pollution.

This is a complex area, but we provide more detail below on the thresholds, positive starting points, how we consider the appointment of external managers, how often we assess, and instances when investments may not meet our Ethical Charter.

### Investment Analysis and Construction

Our investment team constructs portfolios suitable for the investment strategies and objectives of the Funds. More detail can be found in the relevant Product Disclosure Statement (PDS) as well as the Additional Information Booklet (AIB).

<sup>1</sup> We assess investments across multiple asset classes including shares, property, alternatives, fixed interest and cash. Investments can be made through different legal forms such as a company or through a trust, partnership, loan or other instrument. Where we invest via an external investment manager, then our processes involve some important differences which you can read about in section 5.13 'Externally Managed Investments'.

## Ethical Stewardship

As an investor we can encourage companies to create more positive impact and avoid negative impact in different ways – sometimes a simple discussion with management works. But we can also encourage change by:

- voting for changes to directors and executive remuneration to support sustainable business strategies
- collaborating with other investors to signal shared expectations for more responsible business practices
- voting against a merger or a demerger proposal
- publicly questioning company decisions at AGMs and through the media, including through proposing and supporting shareholder resolutions
- divestment, and the threat of divestment, is another tool. If done

at scale it can affect a company's cost of capital, making it less competitive than its more sustainable competitors. If done publicly, it can impact a company's reputation. It can also create market signals that help influence broader change.

Our ethical stewardship includes strategic action for change on a small number of priority issues which have included:

- Stop finance and insurance helping expand the fossil fuel sector
- Reduce harm to animals from animal testing and research
- Stop livestock driven deforestation in Australia
- Reduce emissions from high emissions building products.

We report on our ethical stewardship priorities, activity and progress in our annual Sustainability Report.

## 3 Our ethical investing goals and approach

At Australian Ethical we believe that by investing in assets that have a positive impact on the world around us, and restricting investments with negative impacts, we can have a positive influence on the planet and all its inhabitants. We believe that the power of money can be harnessed to deliver both competitive returns and positive change for people, planet and animals.

These beliefs have been driving our investment philosophy and business practices since 1986 and we pursue these ethical investing goals and develop and apply our Ethical Criteria in accordance with our duty to act in the best interests of investors. This includes acting in their best financial interests.

Ethical investing goals	How we pursue our goals	Potential obstacles to our goals
<p><b>Values alignment:</b> We aim to give investors access to ethically screened portfolios of companies and other investments which are more aligned with their values than market portfolios.</p>	<p>We apply both ethical and financial investment criteria to the selection of investments. We develop and apply evidence based Ethical Criteria to evaluate companies' most significant positive and negative impacts on people, animals and the environment.</p> <p>We consider the perspectives and insights of our interaction with customers and others about their expectations of ethical investment and ethical business practices as we develop and apply our ethical investment approach and criteria. However, we retain responsibility to apply our own ethical investment experience, research and judgement in our ethical investment process.</p>	<p>Some customers disagree with our Ethical Criteria and application of them to specific investments. Customers may consider some of our investment inclusions and exclusions to oppose their values.</p> <p>We seek to mitigate this risk through the application of rigorous ethical research and judgement. We also aim to help customers make informed choices by being transparent about our ethical approach and investments.</p>
<p><b>A better world:</b> We believe ethical investing can influence progress towards a better future for people, animals and the environment.</p>	<p>Investors – like companies, governments, consumers and citizens – are both 'future-takers' and 'future-makers'. We respond to the world as we find it (future-takers), but whether and how we respond also shapes the world (future makers). We believe our ethical investment approach can help progress towards a better world in several ways:</p> <ul style="list-style-type: none"> <li>• We engage with select companies to improve key business practices. Our ethical screening can also help our influence by providing positive consequences for successful engagement (inclusion in ethical and sustainable portfolios) and negative consequences for unproductive engagement (exclusion or divestment).</li> <li>• Our public ethical divestment and exclusion can signal ethical concerns about unsustainable products and practices to companies, other investors, governments, consumers and citizens. This public signal, combined with our ethical engagement and advocacy, can help influence positive changes in behaviour, government policy and investment and consumption choices. We report on engagement priorities, activity and progress in our annual Sustainability Report.</li> <li>• Increased investor demand for ethical over unethical companies can increase access to lower cost funding for ethical companies. At the same time it can restrict funding and increase funding costs for unethical companies. This effect can scale with growth in demand for genuine ethical and sustainable investment options.</li> </ul>	<p>It can be difficult to measure positive change, and even more difficult to determine the causal factors which contributed to that change. Changes can be influenced by many actors and factors, including not only investor action but also competitors, consumers, business partners, NGOs, journalists and actual or threatened regulatory change. Particularly where systemic change is needed to address issues like climate change and nature loss, change of this magnitude often requires multiple participants using multiple sources of leverage and creating positive feedback loops between them.</p> <p>This makes conclusive analysis and attribution difficult, and there is conflicting research about the influence of investor divestment and engagement.</p> <p>We acknowledge the complexity surrounding investor impact. At the same time we believe the challenge and complexity of improving business practices, markets, societies and politics is not a good reason to refrain from action where we see opportunities for influence through ethical engagement, signalling and capital allocation.</p>



Ethical investing goals	How we pursue our goals	Potential obstacles to our goals
<p><b>Better investment portfolios:</b> We believe ethical research can help us identify, understand and manage investment risk and opportunity, at a company, portfolio and systemic level.</p>	<p>Our ethical approach produces investment portfolios which are different to market portfolios constructed without ethical constraints. Our ethical exclusions mean that there will be no or lower investment in some sectors (e.g. fossil fuels and mining) which may offer higher or lower returns than the investments we include. This increases the likelihood of differences between investment performance of our funds and of market benchmarks, particularly over shorter time frames. We believe our ethical investment approach has the potential to contribute to stronger risk return characteristics and performance of our portfolios in the following ways:</p> <ul style="list-style-type: none"> <li>• Our ethical screening may favour portfolios with lower risk and higher growth potential, for example by favouring companies with lower risk of liability and reputational harm from mismanagement of social and environmental impacts; or companies with greater opportunity to exploit growing demand for lower footprint products and technologies.</li> <li>• Successful ethical engagement with companies may help lower their risk and identify growth opportunities, which may increase their value.</li> <li>• Ethical capital allocation, engagement and advocacy may influence companies and governments to act in ways which reduce the likelihood of systemic disruptions. These are disruptions which can have broad social, economic and investment effects, such as climate change, natural capital loss and social division. These disruptions may lower investment returns across markets and economies.</li> </ul>	<p>There may be circumstances in which ethical constraints on potential investments limit opportunities to pursue financial investment objectives. While we recognise this risk in principle, our experience is that our Ethical Criteria define an ethical investment universe which is broad enough to allow the construction of well diversified portfolios suitable for the investment objectives of our Funds.</p> <p>We also note that:</p> <ul style="list-style-type: none"> <li>• Many investment strategies impose constraints of some sort, which bring their own potential investment benefits such as those noted for our ethical investing approach.</li> <li>• Our ethical investing approach will continue to evolve in response to changes in the world (see 'Pursuing our ethical and financial investment objectives' below).</li> </ul>

### Pursuing our ethical and financial investment objectives

Australian Ethical's investment process has two parts.

- Our ethics team applies our Ethical Criteria to assess the positive and negative impacts of potential investments on people, animals and the environment, and that research defines our universe of potential ethical investments.
- Our investment team constructs portfolios suitable for the investment strategies and objectives of our funds and options.

This approach supports our pursuit of our ethical and financial investment objectives, as outlined above as well as in our PDS. We see alignment between these objectives, and we expect that alignment to continue. For example, we believe our Ethical Criteria define an ethical investment universe which is broad enough to allow the construction of well diversified portfolios suitable for the investment objectives of our Funds. If in the future ethical constraints on our investment universe created unacceptable investment challenges, our processes for ongoing development of our Ethical Criteria provide a mechanism for us to evolve our approach in a changing world to continue to allow us to meet our core responsibility to pursue the objectives of the Ethical Charter alongside investment objectives.

## 4 It starts with our Ethical Charter

We seek out investments which provide for and support the ethical principles set out in the Australian Ethical Charter that forms part of Australian Ethical's constitution. These twenty-three principles guide our examination of whether companies and other investments are part of a path to a better future for people, animals and the environment. We interpret and apply these general principles of the Charter using our more detailed Ethical Criteria outlined in the next section.

### The principles of our Ethical Charter

The Ethical Charter contains the general principles which guide the development of our more detailed Ethical Criteria for ethical assessment of potential investments

#### Positive principles

We seek investments assessed to support:

- a. the development of workers' participation in the ownership and control of their work organisations and places
- b. the production of high quality and properly presented products and services
- c. the development of locally based ventures
- d. the development of appropriate technological systems
- e. the amelioration of wasteful or polluting practices
- f. the development of sustainable land use and food production
- g. the preservation of endangered eco-systems
- h. activities which contribute to human happiness, dignity and education
- i. the dignity and well-being of non-human animals
- j. the efficient use of human waste
- k. the alleviation of poverty in all its forms
- l. the development and preservation of appropriate human buildings and landscapes.

#### Negative principles

We restrict investments assessed to unnecessarily:

- i. pollute land, air or water
- ii. destroy or waste non-recurring resources
- iii. extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non-human animals or the environment
- iv. market, promote or advertise, products or services in a misleading or deceitful manner
- v. create markets by the promotion or advertising of unwanted products or services
- vi. acquire land or commodities primarily for the purpose of speculative gain
- vii. create, encourage or perpetuate militarism or engage in the manufacture of armaments
- viii. entice people into financial over- commitment
- ix. exploit people through the payment of low wages or the provision of poor working conditions
- x. discriminate by way of race, religion or sex in employment, marketing, or advertising practices
- xi. contribute to the inhibition of human rights generally.

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## 5 Our Ethical Criteria

Our Ethical Criteria govern our ethical evaluation of companies and other investments issued by financial institutions, responsible entities, trustees, governments or other issuers. They help us identify, measure and balance the most significant positive and negative impacts of companies, products, services and activities.

This measurement and balancing of positive and negative impacts is an important part of our assessment whether to allow or exclude potential investments. We believe a company or an issuer with positive products and services can offer an ethical investment even though it earns some revenue from a negative product or activity, or if its products and services are used by some in a harmful way. Also, where a company or an issuer makes a mistake, we don't automatically exclude it, but we assess whether the mistake indicates a systemic problem, and what action has been taken to fix the mistake and stop it happening again.

This section gives more information about our Ethical Criteria, including how we approach the measurement and balancing of positives and negatives in our ethical analysis, followed by examples of specific criteria for exclusions and inclusions. To introduce our overall approach, we begin with a few examples of investments which we have assessed against our Ethical Criteria.

### 5.1. Some practical examples to start with

#### Investing in the energy sector: Fossil fuels and Renewables

General ethical approach	In or out (As at September 2023)	Energy sector considerations	Relevant sections of this Ethical Guide
Electricity and other energy sources bring many benefits to people, but fossil fuel energy produces high greenhouse gas emissions. We invest to support the transition to a renewable energy system.	OUT: Woodside Santos Whitehaven Coal	We exclude these companies whose main business is fossil fuels (extracting coal, oil or gas). Our Ethical Criteria produce this result based on the percentage of gross revenue each company earns from fossil fuels, which is over our AVOID thresholds.	Fossil fuel section of table 5.7 "Examples of percentage (%) based exclusion criteria" Section 5.4 "Assessing and balancing positive and negative impacts"
	IN: First Solar, Inc Vestas Wind Systems Contact Energy	We include these companies which specialise in renewable energy from sources like wind, solar, hydro and geothermal. Our Ethical Criteria produce this result based on the breakdown of the companies' revenue. Each company has a STRONG positive from the percentage of gross revenue earned from activities such as production of solar panels and wind turbines, and generation of electricity from renewable sources. Contact Energy has some revenue from fossil fuel electricity generation and gas distribution, but this is below the applicable AVOID thresholds for oil and gas.	Renewable Energy section of table 5.9 "Examples of positive thresholds" Fossil fuel section of table 5.7 "Examples of percentage (%) based exclusion criteria" Section 5.4 "Assessing and balancing positive and negative impacts"

#### Investing in the face of human rights concerns

Human rights breaches are widespread in company operations and supply chains, and we don't automatically exclude companies which raise human rights concerns. We believe responsible companies can help better protect human rights by taking steps to identify breaches and help safeguard against their recurrence. But where companies have high human-rights-risk products and locations, we exclude investment if we identify systemic disregard for adverse human rights impacts.	OUT: Best & Less Group	Best & Less produces high volumes of new clothing styles each year. This can encourage over-consumption of clothing ('fast fashion') without sufficient regard for supply chain time and cost pressures, which can encourage employment practices which infringe human rights. Our Ethical Criteria exclude Best & Less for human rights concerns because it operates in the high risk clothing sector and we assess that its business model and approach involves systemic disregard for adverse human rights impacts. This results in an AVOID negative.	Disregard for human rights section of table 5.8 "Examples of non-percentage-based exclusion criteria" Section 5.3 "We may exclude a company or issuer that has caused harm in the way it operates"
	IN: Apple Inc.	Apple raises human rights concerns from its extensive supply chain in China. We assess the company is taking reasonable steps to address these human rights challenges. It reports on its program of supplier audits, including unannounced audit visits, use of independent investigators, and interviews of randomly selected workers without managers present. Our Ethical Criteria do not exclude Apple over supply-chain human rights concerns because of the steps the company is taking to address these concerns. (In addition to these supply chain considerations, our overall ethical assessment of Apple considers a range of other impacts of the company's products and operations, positive and negative.)	

## 5.2. Measuring involvement in positive and negative activities

We generally use gross revenue as an indicator of how much a company or an issuer is involved in a particular positive or negative activity. We assess breakdowns of revenue using different data sources, including the financial reporting and presentations as well as estimates provided by the company or issuer privately or by external analysts and researchers. Where we consider gross revenue isn't representative of current and projected business activity or impact, we may consider other indicators. For example:

- For a biotech research company or company developing transformational technologies, we may consider the valuation of assets or projected revenue, or we may analyse the breakdown of its expenditure.
- For property funds, we often use the relative value of different types of property owned by the fund.
- For a financial institution offering insurance and financial advice, we may compare net insurance premium income with gross financial advice fee revenue.

## 5.3. We may exclude a company or issuer that has caused harm in the way it operates

Where our research reveals that a company or issuer has caused serious harm in the way it operates (e.g. through corrupt practices or discrimination), we assess the extent of the misconduct and harm, and potential exclusion of the investment. For example, most financial services companies have cases where customers have been misled or charged incorrectly. We will exclude an investment if we identify widespread disregard for the interests of customers. If we don't identify broader underlying problems, we may still invest. In our assessment of misconduct:

- We recognise that many organisations regularly experience incidents or breaches of some sort, and the nature and frequency of incidents are considered alongside the nature and size of the company or issuer and its business. Misconduct concerns from isolated incidents won't typically result in exclusion.
- When assessing the seriousness of misconduct, we look at available evidence, and do not simply rely on allegations or media commentary.
- We focus on the likelihood and seriousness of harm from continuing misconduct. For example, we may still invest where we assess that the issuer is taking effective steps to remedy the misconduct and safeguard against recurrence of the misconduct and associated harm.

## 5.4. Assessing and balancing positive and negative impacts

When evaluating companies and other investments using our Ethical Criteria, we look at benefits and harms from both products and operations. A company or investment which produces positive products may still be excluded if we assess that the issuer is mistreating workers or causing unnecessary pollution, for example. Equally an investment by an issuer which has excellent operating standards will still be excluded if it produces negative products above our exclusion thresholds.

When assessing what a company or an investment produces, we consider the positive and negative impacts of products and services, taking into account how those products and services are produced, marketed, used and mis-used. We consider the relative size of the positive and negative impacts, and how certain they are. We consider benefits and harms to consumers of the product or service, as well as to non-consumers including people, animals and the environment. We also consider whether there are more sustainable alternatives.

### Examples:

We may invest in producers of electric vehicles (EVs). We assess that EVs are needed to replace higher emissions petrol (and other fossil fuel) cars, to help limit climate change. In forming this assessment, we take into account the expected shift to more renewable electricity. We also consider the environmental footprint of manufacturing EV cars compared to conventional cars, and the need for more recycling infrastructure for EV batteries.

We have different thresholds for exclusion of nuclear, coal, oil and gas (see the %-based exclusion table 5.7 below) because these different sources of energy have different risks and impacts. We have lower tolerance thresholds for nuclear involvement taking into account the catastrophic risks associated with nuclear accidents and misappropriation of nuclear materials. Our tolerance thresholds for coal are lower than for gas considering that generating electricity from coal produces more greenhouse gas emissions (in general) compared to gas.

When assessing how a company or issuer operates, our Ethical Criteria help us assess whether the negative impacts caused by business activities are necessary or unnecessary, and whether they justify exclusion of a company or investment for failing to minimise its environmental or social footprint. For example, we have excluded some real estate companies which build homes with poor environmental efficiency (e.g. with little insulation), but we have also included some builders even though they don't build their homes to the highest environmental standards because we take into account the additional building costs of using some sustainable building products and techniques. In our assessment of a company's operating standards, we take into account factors like:

- The action we consider a company or issuer can and should take to reduce the negative impacts involved in the production and delivery of its products. We consider the issuer's degree of influence over its supply chain and over the use of its products, and currently accepted responsible business standards and practices. For example, while we would expect a major electronics manufacturer to be taking steps to monitor treatment of workers by its major suppliers in developing economies, we allow more latitude for smaller companies which have less capacity to influence their suppliers.
- Whether steps to reduce harm from a product are likely to reduce the potential benefits offered by that product. For example, responsible lending restrictions on access to loans are important to help stop some customers borrowing too much, but if restrictions are too stringent this can make it harder for other customers to get loans that can help them.

Our Ethical Criteria also help us balance between the positive and negative effects of the company or issuer's products, services and activities. We classify the company or issuer's principal positive and negative impacts as 'MILD' or 'STRONG'. There is also an 'AVOID' category for the strongest negative impacts. The classification depends on the type of impact and the nature and extent of the company or issuer's involvement with the impact. To be considered for investment, a company is required to have positive impacts which are not outweighed by stronger negative impacts, focussing on what we assess as the company's strongest positive and strongest negative. This approach is shown with examples in the following table, and there are further examples in the tables 5.7 and 5.9.



**The Balancing Act: Renewable energy transition (example)**

Business of company or issuer	Positive	Negative	Can we invest?
100% renewable electricity	Strong	None	Yes: Strong positive + no negative = Eligible for investment
85% renewable electricity generation, 15% unconventional gas extraction	Strong	Strong	Yes: Strong positive + Strong negative = Eligible for investment
85% renewable electricity generation, 15% coal powered electricity generation	Strong	Avoid	No: Strong positive + Avoid = Excluded
85% electricity grid (owns electricity poles and wires), 15% unconventional gas extraction	Mild	Strong	No: Mild positive + Strong negative = Excluded

**5.5. Examples of areas we do and don't invest**

The next sections and tables provide further examples of our Ethical Criteria as they apply to different products and activities.

There's more information about our assessment of unnecessary harm and exclusion criteria in the next section 'Examples of exclusion and inclusion criteria and thresholds' and in the following two tables of exclusion criteria.

On the positive side the third table has some specific examples of positive thresholds for inclusion of companies in our ethical investment universe, noting there are many other areas we may also invest. We find companies and issuers with positive impacts in a wide range of sectors such as healthcare, financial services, retailing, renewable energy, education, food production, information technology (IT), real estate, communications, recycling, environmental services and waste management. We may also invest in responsible mining companies where they generate sufficient revenue from transition minerals like lithium and copper where significant growth in production is needed for decarbonisation of global economies.

**5.6. Examples of exclusion and inclusion criteria and thresholds**

When we evaluate an investment, we consider the different businesses and activities of the company or other issuer, including any subsidiaries. Our ethical exclusion criteria, including tolerance thresholds, are generally applied looking at their whole range of activities. However, we focus more narrowly when we are assessing special purpose securities issued to support specific positive projects and activities, such as 'green bonds' or other sustainability-linked bonds which fund positive environmental or social initiatives like reducing emissions or increasing recycling.

For example, we may invest in green bonds issued by a fast food company to finance solar panels for its offices and stores, even though we have excluded investment in the company's shares because of our concerns about the unhealthy food produced by overall business of the company. However, we will not invest in green bonds if we assess that the company's purpose is to greenwash other harmful activities of the company.

The following tables provide examples of our exclusion and inclusion criteria and the factors we consider when assessing potential harm.

## 5.7. Examples of percentage (%) based exclusion criteria

The following table shows the maximum thresholds for a company or issuer's level of involvement in negative activities. Over these levels the investment is excluded. As shown different thresholds apply if the company or issuer is also involved in MILD or STRONG positive activities. As explained above, investments are excluded where a MILD positive is outweighed by a STRONG negative, or where a STRONG positive is outweighed by an AVOID negative.

Company involvement in negative activities is generally measured based on the percentage of gross revenue of the company or issuer, as explained in section 5.2 'Measuring involvement in positive or negative activities'.

### How to read this table (example)

The first section of the table gives examples of exclusions related to alcohol. The first example listed is for production of alcoholic drinks, such as beer brewing. This shows that a company which has a MILD positive (e.g. from producing sustainable food) can earn up to 5% of revenue from beer brewing before it will be excluded. Or if the company has a STRONG positive (e.g. from producing renewable energy), it can earn up to 10% of revenue from beer brewing. Over these thresholds the company will be excluded. For example:

- Company earns 3% revenue from beer brewing (MILD negative) and 97% from sustainable food (MILD positive): Eligible for investment
- Company earns 7% revenue from beer brewing (STRONG negative) and 93% from sustainable food (MILD positive): Excluded
- Company earns 7% revenue from beer brewing (STRONG negative) and 93% from renewable energy (STRONG positive): Eligible for investment
- Company earns 12% revenue from beer brewing (AVOID) and 88% from renewable energy (STRONG positive): Excluded

Product, service, activity	Type of involvement or asset	Exclusion thresholds i.e. investment excluded where % negative business involvement exceeds these levels		Examples of excluded investments if threshold is exceeded
		'STRONG' negatives: Maximum % of business if MILD counter-balancing positive (see table below for examples of MILD positives)	'AVOID' negatives: Maximum % of business if STRONG counter-balancing positive (see table below for examples of STRONG positives)	
Alcohol	Production of alcoholic drinks	Exclude if > 5%	Exclude if > 10%	Brewers, distillers and wine makers
	Production of alcoholic drink packaging Production of ingredients sold to alcoholic drink producers	Exclude if > 10%	Exclude if > 33%	Producers of malted barley sold to brewers and distillers
Animal testing for cosmetic products (See also the further exclusion table for additional exclusion criteria for animal testing)	Conducting or commissioning animal research for cosmetic products	Exclude if > 0%	Exclude if > 0%	Companies using animals to test cosmetics and cosmetic products (including ingredients)
Food which is unsustainable Food is considered unsustainable if it is not part of a healthy diet or production involves unnecessary harm to people, animals or the environment.	Food production from conventional animal agriculture	Exclude if > 10%	Exclude if > 10%	Owners and operators of cattle & sheep stations and feedlots Commercial fishing and fish farming companies
	Food processing from conventional animal agriculture ingredients	Exclude if > 15%	Exclude if > 33%	Producers of sausages and pre-prepared beef & chicken meals. (% assessed considering proportion animal ingredients)
	Production and processing of other types of non-sustainable food e.g. junk food	Exclude if > 50%	Exclude if > 50-90% (Depending on the counter-positive)	Potato chip and soft-drink producers (For example, applying these thresholds we would not exclude a company sustainably producing high sugar & fat foods if making a significant contribution to food security for vulnerable populations)

Product, service, activity	Type of involvement or asset	Exclusion thresholds i.e. investment excluded where % negative business involvement exceeds these levels		Examples of excluded investments if threshold is exceeded
		<b>'STRONG' negatives:</b> <b>Maximum % of business if MILD counter-balancing positive</b> (see table below for examples of MILD positives)	<b>'AVOID' negatives:</b> <b>Maximum % of business if STRONG counter-balancing positive</b> (see table below for examples of STRONG positives)	
Fossil fuels	Mining /extracting & processing fossil fuels Electricity generation from fossil fuels Specialist fossil fuel infrastructure	Our approach excludes investment in companies whose main business is fossil fuels. We may invest in a diversified company which is having a positive impact in other ways such as producing renewable energy, provided its fossil fuel revenue is below these thresholds. See company examples in section 5.1.		
(See also the further exclusion table for additional exclusion criteria for new fossil fuels and fossil fuel finance)	Coal	Exclude if > 5%	Exclude if > 10%	Coal mining companies and coal power stations
	Gas	Exclude if > 10% unconventional gas extraction Exclude if > 33% conventional gas and gas infrastructure	Exclude if > 33%	Gas production and drilling companies LNG plants & gas pipelines
	Oil	Exclude if > 10%	Exclude if > 33%	Oil exploration, extraction and drilling companies Oil refiners
Gambling	Production of gambling machines Ownership or operation of gambling businesses including casinos, horse and greyhound racing tracks	Exclude if > 5%	Exclude if > 10%	Poker machine manufacturer or owner Online sports betting company
	Building of casinos or gaming rooms Broadcasting of horse or greyhound racing	Exclude if > 10%	Exclude if > 33%	Builders, developers and broadcasters (where gambling related business activities exceed thresholds)
Old growth forest logging	Commercial logging of old growth forest (We do not exclude activities which selectively remove trees for conservation and fire risk management)	Exclude if > 0%	Exclude if > 0%	Logging and wood-chip companies engaged in old growth forest logging (We do not exclude sustainable plantation timber production)
Nuclear energy and uranium	Nuclear fission electricity generation Uranium mining Nuclear fuel processing	Exclude if > 0%	Exclude if > 0%	Nuclear power plants Mining companies which mine uranium (We do not exclude investment in nuclear medicine for diagnosis and therapy in healthcare)
	Specialist technologies and components sold to the nuclear energy industry	Exclude if > 5%	Exclude if > 5%	Producer of parts used in nuclear power plants

Product, service, activity	Type of involvement or asset	Exclusion thresholds i.e. investment excluded where % negative business involvement exceeds these levels		Examples of excluded investments if threshold is exceeded
		'STRONG' negatives: Maximum % of business if MILD counter-balancing positive (see table below for examples of MILD positives)	'AVOID' negatives: Maximum % of business if STRONG counter-balancing positive (see table below for examples of STRONG positives)	
Pornography	Production of pornography (film, TV, online, print) Strip clubs Broadcasting or distribution of pornographic content.	Exclude if > 5%	Exclude if > 5%	Pornographic film production company Adult entertainment business operator or owner Cable or online television services (where pornographic programming revenue exceeds thresholds)
Tobacco	Growing tobacco Producing tobacco products Producing specialist machines for the tobacco industry	Exclude if > 0%	Exclude if > 0%	Cigarette manufacturers Manufacturers of tobacco picking or sorting machinery <i>(We do not exclude production of nicotine products produced and sold to help people quit smoking. But we treat nicotine products, nicotine alternatives and vaping products as tobacco products where assessed to encourage use of tobacco products.)</i>
	Production of cigarette packet packaging	Exclude if > 1%	Exclude if > 5%	Packaging manufacturer
Weapons	Production of weapons (including conventional, nuclear and controversial weapons)	Exclude if > 0%	Exclude if > 0%	Weapons manufacturer Producer of enriched uranium (for weapons or fuel)
(These weapons criteria apply to investment in companies. See following table for criteria for exclusion of governments)	Components used to make weapons sold for this purpose	Exclude if > 1%	Exclude if > 5%	Manufacturer of firing pins



## 5.8. Examples of non-percentage-based exclusion criteria

Activity	Ethical exclusion examples
Disregard for animals when conducting or commissioning animal research for healthcare products & therapies	We exclude companies or issuers which fail to show genuine commitment to the '3Rs' i.e. commitment to replace animal testing with available alternatives; to reduce the number of animals needed; to refine testing to minimise animal suffering.
Fossil fuel expansion and finance	(See also previous table for exclusion criteria for mining, extracting & processing of coal, oil and gas)
New fossil fuel projects	We exclude companies developing new fossil fuel projects which are not aligned with the objectives of the Paris Climate Agreement.
Institutional lending and project finance to fossil fuel companies and projects	We exclude banks who are not taking action to align their institutional lending with the objectives of the Paris Climate Agreement.
Undemocratic or militaristic governments	<p>We exclude securities or other investments issued by states or governments which we assess to be undemocratic or militaristic (taking into account external military aggression and military influence in the government of the country). We include governments which are accountable, are bound by rule of law, and protect press freedom, political rights, civil liberties and democratic institutions.</p> <p>Provided they meet our other criteria, we generally allow investment in both 'full' and 'flawed' democracies as assessed by the Economist Intelligence Unit in their annual Democracy Index. We also use indicators from civil society sources to rule out countries which score poorly in areas including equitable distribution of resources, acceptance of the rights of others and freedom from arbitrary arrest.</p>
Misleading marketing and mistreatment of customers	<p>We may exclude companies or other issuers which cause harm by marketing their products and services in a misleading way, or by producing poor quality products and services, or by charging costs and fees they are not entitled to. For example, we would exclude a company which has wrongfully charged fees and is not acting to reimburse customers where practical to do so.</p> <p>As explained earlier, we do not automatically exclude companies for misconduct. We assess how serious and widespread the misconduct is, and we focus on the likelihood and seriousness of harm from continuing misconduct. See the section 5.3 'We may exclude a company or issuer that has caused harm in the way it operates'.</p>
Disregard for human rights	<p>Our human rights research focusses on companies with high human-rights-risk products, services and locations, such as fashion companies with factories in high-risk countries. We exclude companies if we identify systemic disregard for adverse human rights impacts.</p> <p>The supply chains of many companies in our portfolios still raise human rights concerns. Sadly human rights breaches including modern slavery occur somewhere in the supply chains of most companies. We don't exclude companies automatically because of human rights breaches because we believe companies have the potential to contribute to better protection of human rights by taking steps to help identify breaches and then to play their role in helping achieve remedy of breaches and action to safeguard against their recurrence.</p>
Disregard for labour rights	We exclude companies or other investments if we identify systemic disregard for the rights and interests of their employees. For example, if we assess that directors are failing to respond appropriately to cases of discrimination; or suppressing the rights of employees to organise and join unions; or we find persistent non-compliance with labour protection laws in the countries where the company operates. Our assessment of labour controversies also considers global labour standards.
Services which support negative activities	<p>We exclude companies where their main business specialises in supporting industries which breach our Ethical Criteria, for example:</p> <ul style="list-style-type: none"> <li>• Live export companies</li> <li>• Specialist fossil fuel transport companies</li> <li>• Retailers which specialise in the sale of alcohol, junk food, tobacco or weapons.</li> </ul> <p>However we may still invest where we assess that a company's services are reducing the harm caused by the negative industry, for example an environmental services firm.</p>

## 5.9. Examples of positive thresholds

The following table shows minimum thresholds for a company or issuer's level of involvement in positive activities in order for an investment to be eligible for inclusion in our portfolios. As shown different thresholds may apply if the company or issuer is also involved in MILD or STRONG negative activities (from negative business lines or negative impacts from the way it operates).

An investment may be excluded where we have assessed it has negative impacts which are so serious that they cannot be counter-balanced by positive impacts (our AVOID category). In those cases there is no percentage of positive involvement which will make it eligible for investment (investable). The previous tables include examples of AVOID negatives.

Involvement in positive activities is generally measured based on the percentage of gross revenue of the company or issuer, as explained in section 5.2 'Measuring involvement in positive and negative activities'.

### How to read this table (example)

The second row of the table below (environmental services) covers companies which collect and sort waste for recycling. This shows that this type of company will be eligible for investment if it earns at least 10% of revenue from its recycling activities, provided it does not attract a STRONG negative or AVOID for other activities which are negative. If the company does have a STRONG negative (e.g. for producing unsustainable food), then it will only be eligible for investment if it earns a minimum of 50% of revenue from its recycling activities. If the company has an AVOID it will be excluded in all cases. For example:

- Company earns 15% revenue from recycling (MILD positive) and 35% from soft drinks (MILD negative), with balance of revenue from neutral activities: Eligible for investment
- Company earns 45% revenue from recycling (MILD positive) and 55% from soft drinks (STRONG negative): Excluded
- Company earns 65% revenue from recycling (STRONG positive) and 35% from soft drinks (MILD negative): Eligible for investment
- Company earns 65% revenue from recycling (STRONG positive) and 35% from alcoholic drinks (AVOID): Excluded.

Product, service, activity	Type of involvement or asset	Inclusion thresholds i.e. investment can be included where % positive business involvement exceeds these levels	
		'MILD' positive: Minimum % of business if MILD negative or no negatives (see % exclusion table 5.7 for MILD negative examples)	'STRONG' positive: Minimum % of business if STRONG negative (see % exclusion table 5.7 for STRONG negative examples)
Electricity grid	Own or operate electricity transmission or distribution (poles & wires)	Eligible if > 10%	Not investable
Environmental services	Separation and sorting for recycling Environmental remediation	Eligible if > 10%	Eligible if > 50%
Financial services	Banking and insurance services	Eligible if > 33%	Not investable
Healthcare	Treatment of serious disease with wide benefits	Eligible if > 5%	Eligible if > 50%
	Other healthcare services	Eligible if > 33%	Not investable
Human resources and employment services	Recruitment services	Eligible if > 50%	Not investable
Real estate	Affordable housing, schools	Eligible if > 33%	Eligible if > 50%
	Other real estate	Eligible if > 50%	Not investable
Renewable energy	Production of wind turbines or solar panels Wind, solar, run-of-river-hydro electricity generation	Eligible if > 5%	Eligible if > 10%
Software & technology services (IT)	Producer of software supporting public transport or telecommunications sectors	Eligible if > 50%	Eligible if > 67%
	Provider of general office productivity software & technology services	Eligible if > 50%	Not investable
Sustainable food which is part of a healthy diet and production limits unnecessary harm to people, animals and environment	Growing or processing plant based nutrition e.g. fruit, wheat, corn, beans	Eligible if > 33%	Not investable
	Where significant additional contribution to food security, affordability or sustainability	Eligible if > 10%	Eligible if > 33%
Sustainable transport	Ships, rail, public transport	Eligible if > 10%	Eligible if > 33%
Telecommunications	Mobile and fixed wire telecommunications companies	Eligible if > 10%	Eligible if > 50% for telcos with universal service obligation (Otherwise not investable)

## 5.10. Assessing governments, real estate, infrastructure and derivatives

We may invest in instruments issued by democratic governments, including sovereign bonds and other securities issued by national, state and local governments as well as by governmental agencies / corporations. Our Ethical Criteria for government investments focus on the quality of the government's democracy and its use of military power. We will generally allow investment in both 'full' and 'flawed' democracies as assessed by the Economist Intelligence Unit in their annual Democracy Index. We exclude securities or other investments issued by states or governments which we assess to be undemocratic or militaristic (taking into account external military aggression and military influence in the government of the country). We also use indicators from civil society sources to rule out countries which score poorly in areas including equitable distribution of resources, acceptance of the rights of others and freedom from arbitrary arrest.

We may invest in a broad range of buildings, property and infrastructure. In our ethical assessment we consider the type and purpose of the real estate and infrastructure, as well as the environmental impacts of their development and operation. For example, we have excluded investment in portfolios of pubs and clubs, as well as portfolios of general purpose office, commercial and industrial properties with poor environmental sustainability credentials. We may invest in public infrastructure such as roads, stadiums and airports, but we have also excluded investment where we see insufficient consideration of the biodiversity impacts of new greenfield developments.

Our Ethical Criteria allow the use of derivatives for purposes assessed as aligned with the Ethical Charter, including:

- to obtain exposure to investments which have been ethically approved in accordance with our Ethical Criteria;
- to manage currency or interest rate exposure; or
- to obtain short term broad market exposure pending the investment of funds within our ethically screened universe.

We generally use derivatives counterparties that have themselves been ethically approved in accordance with our Ethical Criteria as they apply to that counterparty, although we may use non-approved counterparties where the purpose of the derivatives transaction has been ethically approved.

## 5.11. Circumstances when investments are inconsistent with our Ethical Criteria

There are certain circumstances when we may hold investments which are inconsistent with our Ethical Criteria:

- A business may change after we invest, or we may become aware of new information about the company or issuer which was not identified in our previous research. We describe our process for dealing with these cases in section 5.12 'Updating our assessments';
- If we are transitioning portfolios as a result of fund mergers or similar transactions, it may take time for us to transition other portfolios to align with our Ethical Charter including to realise illiquid non-aligned investments. There is no fixed maximum period for this to occur;
- Cash held with or through custodians or sub-custodians may be held with financial institutions which have not been ethically approved for investment; and
- For Externally Managed Investments, where the external manager makes an investment that is inconsistent with our Ethical Criteria, we consider this a non-compliant investment. To help safeguard against this, we ethically review the investment strategy and responsible investment process of external investment managers to assess consistency with our Ethical Criteria. This includes ongoing periodic review of external managers and their investments. However, because we do not directly manage Externally Managed Investments, there is a higher risk of non-compliant investments being included. We describe our review process and process for dealing with cases where we identify a non-compliant investment in section 5.13 on 'Externally Managed Investments'.

## 5.12. Updating our assessments

After an initial ethical assessment and investment, we conduct periodic ethical reviews of investments. Reviews generally occur every two years although timing may be extended, for example to facilitate review of similar companies at the same time; where material new information is pending; or where there is no evidence of material changes affecting the company. Reviews may also be triggered by significant changes in a company's business or practices, discovery of information previously unknown to us or by a change to our assessment of the impact of relevant products, services and business practices. These reviews typically arise as and when we become aware of changes or new information. For example, we become aware of an announcement of a major acquisition by a company, which will change its business mix.

If we assess that an investment is no longer consistent with our Ethical Criteria, we may divest (i.e. sell our investment), or we may choose to engage to attempt to address the issue. If that engagement is unsuccessful, we will then proceed with divestment. Once the ethical decision to divest is made, we proceed to sell the investment in accordance with a prudent investment process. The sale period depends on factors like the size and liquidity of the investment and impact on the relevant funds and portfolios. For example, sales of shares in large listed companies may be completed in a matter of days, while sales of unlisted investments may take up to a year or more to secure a sale for fair market value. There are no fixed maximum periods for the sale process or for engagement with companies to address issues.

### 5.13. Externally Managed Investments

Some of our investment strategies include investments which are not directly managed by us. These investments are managed by external investment managers including through pooled managed funds, limited partnerships or mandates (**Externally Managed Investments**). For example, some of our investment strategies invest in infrastructure, real estate, early stage companies and international fixed income securities, where those investments are made via managed funds or mandates managed by other investment managers with expertise in these areas.

We may invest in Externally Managed Investments where:

- we expect that the external investment manager's implementation of its investment strategy and process for the Externally Managed Investment will lead to investments that are consistent with our Ethical Criteria. For example, we may approve Externally Managed Investments targeting investment in sustainable healthcare, technologies or transport; or
- we ethically approve inclusion of investments in the investment universe of the Externally Managed Investment, and we can require divestment of individual investments on ethical grounds.

As part of our initial ethical review of an external investment manager, we assess the extent to which they:

- consider environmental, social and ethical factors including labour standards; and
- engage in meaningful ethical stewardship including how they exercise voting rights.

We periodically review Externally Managed Investments for consistency with our Ethical Criteria, generally every two years as explained in the previous section 'Updating our assessments'. Our review includes the implementation of the external investment manager's investment strategy and responsible investment process for the Externally Managed Investment. Our consideration of individual underlying investments is typically less detailed than for our direct investments because we also take into account the external investment manager's investment strategy and responsible investment process for the Externally Managed Investment.

If we assess that an Externally Managed Investment is inconsistent with our Ethical Criteria, we may choose to divest or to engage with the external investment manager or underlying investee to attempt to address the concern. If that engagement is unsuccessful, we will then proceed with divestment. Once the ethical decision to divest is made, we proceed to sell the investment in accordance with a prudent investment process. There may be significant delay in disposal or realisation depending on the nature and terms of the Externally Managed Investment and underlying investments.

For funds of funds we seek to apply these principles to both the top-level external investment manager as well as the lower-level managers and funds, although our investigation of lower levels may be less detailed because we take into account the external investment manager's investment strategy and responsible investment process, including their manager selection process.

### 5.14. Scope of our ethical research

It is not possible or practical for us to have or obtain knowledge of all the facts which may be relevant to an ethical evaluation of potential investments. Judgement is often needed. For example, our ethical analysts use their judgement to determine whether and how deeply to research particular issues which may affect a company. We often use information and analysis from company, industry, government, sustainability research, academic, civil society and other sources. Judgement and estimates are required to deal with information gaps, potential inaccuracy, inconsistencies and complexity.

## 6 Our ethical stewardship

We use the term 'ethical stewardship' to refer to our engagement and advocacy as an ethical investor to influence companies, governments and others. We use different levers to influence change, including to escalate engagements where we are not making progress. These influence levers include:

- Private dialogue with company directors and management
- Collaborating with other investors to signal shared expectations for more responsible business practices
- Voting against a merger or a demerger proposal
- Voting for changes to directors and executive remuneration to support sustainable business strategies<sup>2</sup>
- Public challenge to company decisions and behaviour, in the media and at AGMs, including through proposing and supporting shareholder resolutions
- Divestment i.e. selling our investment in a company.

We also seek to influence government for better policy and regulation. We bring the perspective of a long-term responsible investor to counterbalance the sometimes short-term and self-interested perspectives of specific companies, industries and interest groups. Influence levers include public investor letters to governments, policy submissions, and coordinated lobbying campaigns through organisations like the Investor Group on Climate Change.

Our ethical stewardship combines strategic action for change on a small number of priority issues with more tactical action for change on a broader range of issues. Our strategic stewardship priorities are determined asking the following questions:

- What is the most serious and widespread harm we can help avoid, or the most impactful positive change we can support?
- Where do we have the greatest opportunities to influence change?

Our strategic stewardship priorities have included action to help:

- Stop finance and insurance helping expand the fossil fuel sector
- Reduce harm to animals from animal testing and research
- Stop livestock driven deforestation in Australia
- Reduce emissions from high emissions building products.

Our tactical engagements occur where we take opportunities in our day-to-day dealings with companies and other investors to influence change on a broader range of issues affecting people, animals and the environment.

Our ethical stewardship is an important part of our pursuit of our ethical investing goals described earlier in the Ethical Guide, including to improve company behaviour and address systemic challenges like climate change. At the same time as our ethical stewardship seeks to support a better world for people, animals and the environment, it also seeks to help lower risk and identify sustainable growth areas for the companies we invest in, and to help reduce the likelihood of systemic disruptions which can lower investment returns across markets and economies.

We report on our ethical stewardship priorities, activity and progress in our annual Sustainability Report.

<sup>2</sup> We exercise our voting rights at company meetings in accordance with our Proxy Voting Policy.



## 7 Our climate ambition

We believe it's important that investors – as well as governments and businesses – set climate related goals which signal and guide action to limit climate change. Australian Ethical reports on its climate ambition, climate action and climate progress in our annual Climate Report, available on our website, which is developed with reference to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

We pursue net zero outcomes for our investments and the world (our climate ambition) aligned with the emissions reduction needed to limit temperature rise to 1.5°C – consistent with the most ambitious aims of the Paris Agreement. Unfortunately at this time these outcomes are far from certain, and they are not investment forecasts.

We pursue our climate ambition using the levers explained in section 3 'Our ethical investing goals and approach', combining ethical screening, engagement and advocacy to promote positive change in economies and societies through influence on companies, governments, consumers and citizens. Our action, measurement and reporting include:

- Annual carbon footprint measures for our share investments. While data is not currently available across all our investments, and involves some limitations (discussed in our reporting), we believe this measurement remains a useful demonstration that our ethical investment approach – which is applied consistently across investments – favours portfolios with lower emissions intensity than relevant benchmarks.
- Engagement and advocacy to help stop finance for expansion of the fossil fuel sector; to help stop and reverse land clearing and deforestation for animal agriculture; to help increase the development and use of low carbon building materials necessary for the net zero transition of the real estate sector.
- Seeking to leverage the collective power of aligned investors by leading and participating in collaborative engagements with high emissions companies, including through the global initiative Climate Action 100+.
- Work to encourage better government climate policy, including contributing to the policy engagement and advocacy of the Investor Group on Climate Change.
- Applying and communicating our climate-related Ethical Criteria which govern our ethical assessment of investments in key sectors with important climate impacts, including the energy, finance, food, transport and mining sectors.

The impact of these actions is uncertain, and it is uncertain whether we will achieve our climate ambition. There are many factors outside our control, including climate policy and regulation in Australia and globally, as well as the action of companies, other investors and individuals. While we aim to influence stronger climate action by others, we do not control their actions.

Obstacles to achievement of our climate ambition include the current lack of climate ambition and action from many companies and governments. Analysis by expert groups like the Intergovernmental Panel on Climate Change and International Energy Agency makes clear the world is falling short of the scale of action needed for global net zero by 2050. We're also concerned by the risk of greater emissions increase and climate disruption than has been predicted by many climate models.

Despite these obstacles, there are more ambitious decarbonisation pathways which would support achievement of our climate ambition. Pathways where we see more urgent transformation of our energy and transport systems; where land is restored to capture carbon and boost sustainable agriculture; where innovative building materials and techniques radically lower the footprint of our homes and infrastructure. Investors have a key role to play supporting and accelerating these pathways and transformations. These pathways and transformations also create low carbon investment opportunity for investors seeking to accelerate the decarbonisation of their own portfolios.

### Investment implications of our climate ambition

We pursue our climate ambition by applying our ethical investment approach, which we believe supports our pursuit of both our financial and ethical objectives – including our climate objectives. For example, applying our climate-related Ethical Criteria and pursuing our net zero ambitions can favour portfolios with lower climate-related transition risk and higher exposure to growing decarbonisation opportunities. Our approach can also strengthen specialist investment capabilities to navigate technological change associated with climate disruption and transition.

Alongside these potential investment advantages, there is the risk that climate-related constraints on potential investments could limit opportunities to pursue financial investment objectives. While our experience has been that our constrained ethical investment universe has allowed the construction of well diversified portfolios suitable for the investment objectives of our funds and options, this may change. If in the future ethical constraints on our investment universe created unacceptable investment challenges, our processes for ongoing development of our climate ambition and Ethical Criteria provide a mechanism for us to evolve our approach in a changing world to continue to allow us to meet our core responsibility to pursue the objectives of the Ethical Charter alongside investment objectives.