

# Sustainable Funds

## Reference Guide



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### About this document

This document forms part of the Product Disclosure Statement (PDS) for the 'sustainable' product you wish to apply for and contains statements and information incorporated by reference and must be read in conjunction with the PDS. A reference to the 'PDS' in this document is a reference to the PDS, the Investment Options Menu (if applicable) and all statements and information incorporated by reference as described and listed in the PDS. You should read all parts of the PDS and assess whether the product is appropriate for you before making a decision to invest in the product.

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### About the administrator, responsible entity and trustee

Investments in investment products are made available by Colonial First State Investments Limited ABN 98 002 348 352 AFSL 232468 (CFSIL, the responsible entity). Investments in superannuation products are made available by Avanteos Investments Limited ABN 20 096 259 979, AFSL 245531 (AIL), the trustee of the Colonial First State FirstChoice Superannuation Trust ABN 26 458 298 557 (FirstChoice Trust). Unless otherwise stated in the PDS, AIL and CFSIL are also referred to in the PDS as we, our or us.

The investment managers are acting as investment managers only for the relevant funds. They are not issuing, selling, guaranteeing, underwriting or performing any other function in relation to the funds. The investment managers of the funds available have given, and not withdrawn, their consent to be referenced in this PDS in the form and context in which they are included. CFSIL and AIL reserve the right to outsource any or all of its investment management functions, including to related parties, without notice to investors.

### General advice warning

The information provided in this document is general information only and does not take account of your individual objectives, financial or taxation situation or needs. You should assess whether the product is appropriate for you and consider obtaining financial advice relevant to your personal circumstances before investing.

The Target Market Determinations (TMD) for our financial products can be found at [cfs.com.au/tmd](https://cfs.com.au/tmd) and include a description of who the financial product is appropriate for.

### No guarantee

The investment performance and the repayment of capital is not guaranteed. Investments in FirstChoice products are subject to investment risk, including loss of income and capital invested. Past performance is no indication of future performance. Investments in FirstChoice products are not deposits or other liabilities of CFS entities.

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# Sustainable investment choice at CFS

CFS has been helping members and investors achieve financial freedom for over 30 years. With almost 900,000 members, we recognise that each of them will have different objectives, values and preferences when it comes to how they invest their retirement savings. That is why we are committed to providing a wide range of investment choice, so that each member is empowered to invest in line with their personal preferences.

If you would like further information about how CFS is approaching environmental, social and governance (ESG) risks and opportunities, please visit the CFS website at [cfs.com.au/about-us/responsible-investing.html](https://cfs.com.au/about-us/responsible-investing.html)

## What this Reference Guide is for

This Reference Guide contains additional information about the sustainable investment options offered on the FirstChoice menus. In this guide, we will be referring to each as a fund. This guide will give investors further information about:

### 1 The fund overview

This shows how the fund operates and what it aims to achieve.

### 2 The fund's investment process

This explains the fund investment process and how any ESG factors are incorporated.

### 3 Inclusions

Any areas that the fund will actively seek to include in the portfolio.

### 4 Exclusions

Any areas that the fund will actively seek to exclude from the portfolio.

### 5 Other ESG considerations

Any other ESG considerations that have not been mentioned but are material to the management of the fund. This may include definitions of any ESG related terminology.



The sustainable funds offered by CFS allow members to invest in a way that more closely aligns with their values or to support certain environmental and social outcomes. We recognise that the investment manager of each of these funds has their own approach to sustainability. We apply a variety of methods to evaluate the funds' underlying investments/holdings so that we can be reasonably satisfied that they are consistent with their stated objectives and strategy as shown in the PDS. These include upfront due diligence, obtaining annual attestations that the manager is investing in a manner that is aligned to their stated strategy and investment processes as well as additional portfolio screening.

While we exercise reasonable care to disclose ESG risks and to monitor underlying investments/holdings, there may, from time to time, be a small level of unintended exposure due to lack of data, corporate activity within their portfolio, indirect exposure or exposure through index derivatives or third party managed pooled unit trusts and ETFs.

If we discover a situation where a fund's stated objective or strategy is not satisfied, we will immediately discuss this with the manager and implement appropriate corrective action as soon as practical. This may include updating this guide or related disclosures or seeking divestment of specific offending investment/holdings.

# Acadian Geared Global Equity

## Fund overview

Objective	To maximise risk-adjusted, long-term returns by borrowing to invest in stocks from around the world, while carefully controlling portfolio risk and transaction costs. The fund aims to outperform the MSCI World ex Australia Index over rolling seven-year periods before fees and taxes.
Minimum suggested timeframe	At least 7 years
Risk	 <p>Low Medium High</p>
Allocation	 <p> <b>Target</b>  100.0% (90–100%) <span style="color: red;">■</span> Global shares  0.0% (0–10%) <span style="color: blue;">■</span> Cash </p>
Strategy	Acadian utilises a systematic multi-factor investment approach, while integrating a range of ESG criteria, to select stocks. The fund aims to exclude stocks associated (to varying degrees) with the following activities: production or manufacturing of tobacco and controversial weapons; production or manufacture of products in alcohol, gambling and adult entertainment; thermal coal mining or extraction of unconventional oil and gas; fossil fuel companies considered to be climate transition laggards <sup>1</sup> and stocks considered to have business practices that violate the UN Global Compact. Acadian will target a reduction in weighted average carbon intensity (WACI) of the portfolio relative to the MSCI World ex Australia index. The fund will also aim to maintain a positive active exposure to stocks considered to be contributing to environmental and social objectives as defined by the UN Sustainable Development Goals. The fund utilises gearing to magnify returns from underlying investments. The fund does not hedge investors' currency risk, but may hedge up to 100% of the currency exposure relating to the borrowings of the fund.

<sup>1</sup> Fossil Fuel Companies deemed Climate Transition Laggards are defined as any companies that derive: (a) >10% revenue from the extraction and production of oil and gas (as identified via third party data); or (b) >10% revenue from power generation associated with fossil fuels (thermal coal, liquid fuel and natural gas) as identified via third party data are identified in the first step. In a second step, those companies (identified in the first step) that appear unable or unwilling to transition to the low carbon economy are excluded. To identify companies that appear unable or unwilling to transition to the low carbon economy the Manager employs a proprietary classification model. The Manager's classification model uses proprietary techniques and third party data. Companies showing strong evidence of transitioning towards the low carbon economy are classified climate transition leaders. These climate transition leaders typically exhibit at least one of the following characteristics: a committed/approved science-based target, a strong ability to manage carbon risks, an announced decarbonization target together with carbon intensity below its sector peer group, and/or revenue derived from alternative energy. Conversely companies not displaying any of the above characteristics are categorized as climate transition laggards, and excluded during this second step.

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## Investment process

Acadian utilises a systematic multi-factor investment approach, while integrating a range of ESG criteria, to select stocks. This includes having no exposure to stocks that:

- derive any revenue from the production or manufacturing of tobacco and controversial weapons (including the manufacture, delivery or provision of critical components of cluster munitions, landmines, biological & chemical weapons, blinding laser weapons, depleted uranium weapons, incendiary/white phosphorus weapons, non-detectable fragments weapons or nuclear weapons); or
- more than 5% of gross revenue<sup>2</sup> from the production or manufacture of products in alcohol, gambling and adult entertainment
- derive more than 5% of gross revenue<sup>2</sup> from thermal coal mining or extraction of unconventional oil & gas (such as oil sands, shale oil, shale gas and tar sands) fossil fuel companies considered to be climate transition laggards,<sup>3</sup> and
- stocks considered to have business practices that violate the UN Global Compact,<sup>4</sup> for example those involved in very severe ESG controversies such as human rights abuses or corruption (e.g. extortion or bribery).

Acadian will target a reduction in weighted average carbon intensity (WACI) of the portfolio relative to the MSCI World ex Australia index of at least 20%. In addition to above, Acadian will reduce the maximum allowable carbon intensity exposure systematically over time. This involves an upfront WACI reduction relative to the benchmark such that it is no more than 80% of the WACI of the benchmark at 31st December 2020 (the 'Base Date'); and an annual absolute WACI reduction of 7% p.a.

The fund may hold an allocation to Notable ESG Controversies and Laggards<sup>5</sup> in aggregate that is no more than that of the MSCI World Ex Australia Index (note that the portfolio may still hold companies identified as a Notable ESG Controversy or Laggard).

## Inclusions

The fund will also target a positive (at least 1.1x that of the fund's benchmark) allocation to companies that contribute to environmental objectives (such as water use, clean energy, climate action) and social objectives (such as alleviation of poverty and hunger, good health and wellbeing, promotion of education, gender equality). Contribution to these objectives is measured via an issuer's revenue alignment to UN SDGs (United Nations Sustainable Development Goals) (where revenue-based measurement of UN SDGs is possible). An issuer's contribution can only be deemed as sustainable if at least 20% of its net revenue is derived from products or services that contribute to the UN SDGs.

2 As supplied by MSCI. Revenue is the latest available year percent of revenue, or maximum estimated percent, a company has derived from the stated activity. MSCI uses total or gross revenue. However, in absence of such, MSCI considers net sales or operating revenue as reported by the company in its financial statements for the purpose of revenue estimations. When companies do not report exact revenue figures for a covered business activity, MSCI provides an estimate of companies' involvement in the subject activity. Revenue estimates do not cover indirect involvement to a business activity, either through a parent company or subsidiary.

3 Fossil Fuel Companies deemed Climate Transition Laggards are defined as any companies that derive: (a) >10% revenue from the extraction and production of oil and gas (as identified via third party data); or (b) >10% revenue from power generation associated with fossil fuels (thermal coal, liquid fuel and natural gas) as identified via third party data are identified in the first step. In a second step, those companies (identified in the first step) that appear unable or unwilling to transition to the low carbon economy are excluded. To identify companies that appear unable or unwilling to transition to the low carbon economy the Manager employs a proprietary classification model. The Manager's classification model uses proprietary techniques and third party data. Companies showing strong evidence of transitioning towards the low carbon economy are classified climate transition leaders. These climate transition leaders typically exhibit at least one of the following characteristics: a committed/approved science-based target, a strong ability to manage carbon risks, an announced decarbonization target together with carbon intensity below its sector peer group, and/or revenue derived from alternative energy. Conversely companies not displaying any of the above characteristics are categorized as climate transition laggards, and excluded during this second step.

4 Based on UNGC violations data provided by third party providers such as MSCI and Sustainalytics.

5 As defined by MSCI as controversial Red or Orange flags or companies that have an MSCI ESG Rating of CCC.

## Exclusions

Exclusions	Definition including activity	Threshold <sup>6</sup>
Tobacco	Production or manufacture; which includes companies that manufacture tobacco products, such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco. This also includes companies that grow or process raw tobacco leaves. Note: Companies that sell private-label tobacco products manufactured by a third party are considered retailers, not manufacturers.	> 0% of revenue <sup>6</sup>
Controversial weapons	Companies involved in, are owned by or own companies involved in, the manufacture, delivery or provision of critical components of cluster munitions, landmines, biological & chemical weapons, blinding laser weapons, depleted uranium weapons, incendiary (including white phosphorus) weapons, non-detectable fragments weapons or nuclear weapons.	> 0% of revenue <sup>6</sup>
Alcohol	Production or manufacture of alcohol, which includes companies that manufacture alcoholic products, including brewers, distillers and vintners. It also includes companies that own or operate wine vineyards. Note: Companies that sell private-label alcoholic beverages manufactured by a third party are considered retailers, not manufacturers.	> 5% of revenue <sup>6</sup>
Gambling	Production or operator of products related to gambling, which includes companies that own or operate gambling facilities such as casinos, racetracks, bingo parlours or other betting establishments, including: horse, dog or other racing events that permit wagering; lottery operations; online gambling; fantasy sports that permit wagering; pari-mutuel wagering facilities; bingo; pachino slot and pachinko parlours; slot machines; jai alai; mobile gambling; and sporting events that permit wagering.	> 5% of revenue <sup>6</sup>
Adult entertainment	Production or manufacture of products, which includes companies that produce, direct or publish adult entertainment materials that fall into the following six categories: Producer of X-rated films, Producer of Pay-per-view programming or channels, Producer of sexually explicit video games, Producer of books or magazines with adult content, Live entertainment of an adult nature, Producer of adults-only material on the internet.	> 5% of revenue <sup>6</sup>
Thermal coal mining	Revenue from the mining of Thermal Coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. This does not include revenue from Metallurgical Coal; Coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined Thermal Coal; and revenue from Coal trading.	> 5% of revenue <sup>6</sup>
Unconventional Oil & Gas	This includes oil sands, shale oil, shale gas and tar sands.	> 5% of revenue <sup>6</sup>
Conventional Weapons	Production or manufacture of conventional weapons including weapons systems, components and support systems and services.	> 5% of revenue <sup>6</sup>

<sup>6</sup> As supplied by MSCI. Revenue is the latest available year percent of revenue, or maximum estimated percent, a company has derived from the stated activity. MSCI uses total or gross revenue. However, in absence of such, MSCI considers net sales or operating revenue as reported by the company in its financial statements for the purpose of revenue estimations. When companies do not report exact revenue figures for a covered business activity, MSCI provides an estimate of companies' involvement in the subject activity. Revenue estimates do not cover indirect involvement to a business activity, either through a parent company or subsidiary.



Exclusions	Definition including activity	Threshold <sup>6</sup>
Fossil fuel companies considered to be climate transition laggards <sup>7</sup>	<p>Any companies that derive revenue<sup>6</sup> from:</p> <p>(a) the extraction and production of oil and gas; or</p> <p>(b) power generation associated with fossil fuels (thermal coal, liquid fuel and natural gas)</p> <p>are identified in the first step.</p> <p>In a second step, those companies (identified in the first step) that appear unable or unwilling to transition to the low carbon economy are excluded. To identify companies that appear unable or unwilling to transition to the low carbon economy the Manager employs a proprietary classification model that uses proprietary techniques and third-party data. Companies showing strong evidence of transitioning towards the low carbon economy are classified climate transition leaders. These climate transition leaders typically exhibit at least one of the following characteristics: a committed/approved science-based target, a strong ability to manage carbon risks, an announced decarbonisation target together with carbon intensity below its sector peer group, and/or revenue derived from alternative energy. Conversely companies not displaying any of the above characteristics are categorised as climate transition laggards and excluded during this second step.</p>	>10% of revenue
Stocks that violate the UN Global Compact	Stocks considered to have business practices that violate the UN Global Compact, for example those involved in very severe ESG controversies such as human rights abuses or corruption (e.g. extortion or bribery).	Based on UNGC violations data provided by third party providers such as MSCI and Sustainalytics.

<sup>6</sup> As supplied by MSCI. Revenue is the latest available year percent of revenue, or maximum estimated percent, a company has derived from the stated activity. MSCI uses total or gross revenue. However, in absence of such, MSCI considers net sales or operating revenue as reported by the company in its financial statements for the purpose of revenue estimations. When companies do not report exact revenue figures for a covered business activity, MSCI provides an estimate of companies' involvement in the subject activity. Revenue estimates do not cover indirect involvement to a business activity, either through a parent company or subsidiary.

<sup>7</sup> Fossil Fuel Companies deemed Climate Transition Laggards are defined as any companies that derive: (a) >10% revenue from the extraction and production of oil and gas (as identified via third party data); or (b) >10% revenue from power generation associated with fossil fuels (thermal coal, liquid fuel and natural gas) as identified via third party data are identified in the first step. In a second step, those companies (identified in the first step) that appear unable or unwilling to transition to the low carbon economy are excluded. To identify companies that appear unable or unwilling to transition to the low carbon economy the Manager employs a proprietary classification model. The Manager's classification model uses proprietary techniques and third party data. Companies showing strong evidence of transitioning towards the low carbon economy are classified climate transition leaders. These climate transition leaders typically exhibit at least one of the following characteristics: a committed/approved science-based target, a strong ability to manage carbon risks, an announced decarbonization target together with carbon intensity below its sector peer group, and/or revenue derived from alternative energy. Conversely companies not displaying any of the above characteristics are categorized as climate transition laggards, and excluded during this second step.

# Acadian Global Equity

## Fund overview

Objective	To maximise risk-adjusted, long term active returns from a diversified portfolio of global securities while actively incorporating a range of Environmental, Social and Governance (ESG) investment criteria and reducing exposure to carbon intensive companies relative to the benchmark. The fund aims to outperform the MSCI World ex Australia Index over rolling four-year periods before fees and taxes.
Minimum suggested timeframe	At least 7 years
Risk	 <div> Low      Medium      High </div>
Allocation	 <div> <div> Target 100.0% 0.0% </div> <div> (Range) (90–100%) (0–10%) </div> <div> Global shares Cash </div> </div>
Strategy	Acadian utilises a systematic multi-factor investment approach, while integrating a range of ESG criteria, to select stocks. The fund aims to exclude stocks associated (to varying degrees) with the following activities: production or manufacturing of tobacco and controversial weapons; production or manufacture of products in alcohol, gambling and adult entertainment; thermal coal mining or extraction of unconventional oil and gas; fossil fuel companies considered to be climate transition laggards <sup>1</sup> and stocks considered to have business practices that violate the UN Global Compact. Acadian will target a reduction in weighted average carbon intensity (WACI) of the portfolio relative to the MSCI World ex Australia index. The fund will also aim to maintain a positive active exposure to stocks considered to be contributing to environmental and social objectives as defined by the UN Sustainable Development Goals. The fund does not hedge currency risk.

<sup>1</sup> Fossil Fuel Companies deemed Climate Transition Laggards are defined as any companies that derive: (a) >10% revenue from the extraction and production of oil and gas (as identified via third party data); or (b) >10% revenue from power generation associated with fossil fuels (thermal coal, liquid fuel and natural gas) as identified via third party data are identified in the first step. In a second step, those companies (identified in the first step) that appear unable or unwilling to transition to the low carbon economy are excluded. To identify companies that appear unable or unwilling to transition to the low carbon economy the Manager employs a proprietary classification model. The Manager's classification model uses proprietary techniques and third party data. Companies showing strong evidence of transitioning towards the low carbon economy are classified climate transition leaders. These climate transition leaders typically exhibit at least one of the following characteristics: a committed/approved science-based target, a strong ability to manage carbon risks, an announced decarbonization target together with carbon intensity below its sector peer group, and/or revenue derived from alternative energy. Conversely companies not displaying any of the above characteristics are categorized as climate transition laggards, and excluded during this second step.



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## Investment process

Acadian utilises a systematic multi-factor investment approach, while integrating a range of ESG criteria, to select stocks. This includes having no exposure to stocks that:

- derive any revenue from the production or manufacturing of tobacco and controversial weapons (including the manufacture, delivery or provision of critical components of cluster munitions, landmines, biological & chemical weapons, blinding laser weapons, depleted uranium weapons, incendiary/white phosphorus weapons, non-detectable fragments weapons or nuclear weapons); or
- more than 5% of gross revenue<sup>2</sup> from the production or manufacture of products in alcohol, gambling and adult entertainment.
- derive more than 5% of gross revenue<sup>2</sup> from thermal coal mining or extraction of unconventional oil & gas (such as oil sands, shale oil, shale gas and tar sands), fossil fuel companies considered to be climate transition laggards<sup>3</sup>, and
- stocks considered to have business practices that violate the UN Global Compact<sup>4</sup>, for example those involved in very severe ESG controversies such as human rights abuses or corruption (e.g. extortion or bribery).

Acadian will target a reduction in weighted average carbon intensity (WACI) of the portfolio relative to the MSCI World ex Australia index of at least 20%.

In addition to above, Acadian will reduce its carbon intensity exposure systematically over time. This involves an upfront WACI reduction relative to the benchmark such that it is no more than 80% of the WACI of the benchmark at 31st December 2020 (the 'Base Date'); and an annual absolute WACI reduction of 7% p.a.

The fund may hold an allocation to Notable ESG Controversies and Laggards<sup>5</sup> in aggregate that is no more than that of the MSCI World Ex Australia Index (note that the portfolio may still hold companies identified as a Notable ESG Controversy or Laggard).

## Inclusions

The fund will also target a positive (at least 1.1x that of the fund's benchmark) allocation to companies that contribute to environmental objectives (such as water use, clean energy, climate action) and social objectives (such as alleviation of poverty and hunger, good health and wellbeing, promotion of education, gender equality). Contribution to these objectives is measured via an issuer's revenue alignment to UN SDGs (United Nations Sustainable Development Goals) (where revenue-based measurement of UN SDGs is possible). An issuer's contribution can only be deemed as sustainable if at least 20% of its net revenue is derived from products or services that contribute to the UN SDGs.

2 As supplied by MSCI. Revenue is the latest available year percent of revenue, or maximum estimated percent, a company has derived from the stated activity. MSCI uses total or gross revenue. However, in absence of such, MSCI considers net sales or operating revenue as reported by the company in its financial statements for the purpose of revenue estimations. When companies do not report exact revenue figures for a covered business activity, MSCI provides an estimate of companies' involvement in the subject activity. Revenue estimates do not cover indirect involvement to a business activity, either through a parent company or subsidiary.

3 Fossil Fuel Companies deemed Climate Transition Laggards are defined as any companies that derive: (a) >10% revenue from the extraction and production of oil and gas (as identified via third party data); or (b) >10% revenue from power generation associated with fossil fuels (thermal coal, liquid fuel and natural gas) as identified via third party data are identified in the first step. In a second step, those companies (identified in the first step) that appear unable or unwilling to transition to the low carbon economy are excluded. To identify companies that appear unable or unwilling to transition to the low carbon economy the Manager employs a proprietary classification model. The Manager's classification model uses proprietary techniques and third party data. Companies showing strong evidence of transitioning towards the low carbon economy are classified climate transition leaders. These climate transition leaders typically exhibit at least one of the following characteristics: a committed/approved science-based target, a strong ability to manage carbon risks, an announced decarbonization target together with carbon intensity below its sector peer group, and/or revenue derived from alternative energy. Conversely companies not displaying any of the above characteristics are categorized as climate transition laggards, and excluded during this second step.

4 Based on UNGC violations data provided by third party providers such as MSCI and Sustainalytics.

5 As defined by MSCI as controversial Red or Orange flags or companies that have an MSCI ESG Rating of CCC.

## Exclusions

Exclusions	Definition including activity	Threshold <sup>6</sup>
Tobacco	Production or manufacture; which includes companies that manufacture tobacco products, such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco. This also includes companies that grow or process raw tobacco leaves. Note: Companies that sell private-label tobacco products manufactured by a third party are considered retailers, not manufacturers.	> 0% of revenue <sup>6</sup>
Controversial weapons	Companies involved in, are owned by or own companies involved in, the manufacture, delivery or provision of critical components of cluster munitions, landmines, biological & chemical weapons, blinding laser weapons, depleted uranium weapons, incendiary (including white phosphorus) weapons, non-detectable fragments weapons or nuclear weapons.	> 0% of revenue <sup>6</sup>
Alcohol	Production or manufacture of alcohol, which includes companies that manufacture alcoholic products, including brewers, distillers and vintners. It also includes companies that own or operate wine vineyards. Note: Companies that sell private-label alcoholic beverages manufactured by a third party are considered retailers, not manufacturers.	> 5% of revenue <sup>6</sup>
Gambling	Production or operator of products related to gambling, which includes companies that own or operate gambling facilities such as casinos, racetracks, bingo parlours or other betting establishments, including: horse, dog or other racing events that permit wagering; lottery operations; online gambling; fantasy sports that permit wagering; pari-mutuel wagering facilities; bingo; pach slot and pachinko parlours; slot machines; jai alai; mobile gambling; and sporting events that permit wagering.	> 5% of revenue <sup>6</sup>
Adult entertainment	Production or manufacture of products, which includes companies that produce, direct or publish adult entertainment materials that fall into the following six categories: Producer of X-rated films, Producer of Pay-per-view programming or channels, Producer of sexually explicit video games, Producer of books or magazines with adult content, Live entertainment of an adult nature, Producer of adults-only material on the internet.	> 5% of revenue <sup>6</sup>
Thermal coal mining	Revenue from the mining of Thermal Coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. This does not include revenue from Metallurgical Coal; Coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined Thermal Coal; and revenue from Coal trading.	> 5% of revenue <sup>6</sup>
Unconventional Oil & Gas	This includes oil sands, shale oil, shale gas and tar sands.	> 5% of revenue <sup>6</sup>
Conventional Weapons	Production or manufacture of conventional weapons including weapons systems, components and support systems and services.	> 5% of revenue <sup>6</sup>

<sup>6</sup> As supplied by MSCI. Revenue is the latest available year percent of revenue, or maximum estimated percent, a company has derived from the stated activity. MSCI uses total or gross revenue. However, in absence of such, MSCI considers net sales or operating revenue as reported by the company in its financial statements for the purpose of revenue estimations. When companies do not report exact revenue figures for a covered business activity, MSCI provides an estimate of companies' involvement in the subject activity. Revenue estimates do not cover indirect involvement to a business activity, either through a parent company or subsidiary.

Exclusions	Definition including activity	Threshold <sup>6</sup>
Fossil fuel companies considered to be climate transition laggard <sup>7</sup>	<p>Any companies that derive revenue from:</p> <p>(a) the extraction and production of oil and gas; or</p> <p>(b) power generation associated with fossil fuels (thermal coal, liquid fuel and natural gas)</p> <p>are identified in the first step.</p> <p>In a second step, those companies (identified in the first step) that appear unable or unwilling to transition to the low carbon economy are excluded. To identify companies that appear unable or unwilling to transition to the low carbon economy the Manager employs a proprietary classification model. The Manager's classification model uses proprietary techniques and third party data. Companies showing strong evidence of transitioning towards the low carbon economy are classified climate transition leaders. These climate transition leaders typically exhibit at least one of the following characteristics: a committed/approved science-based target, a strong ability to manage carbon risks, an announced decarbonization target together with carbon intensity below its sector peer group, and/or revenue derived from alternative energy. Conversely companies not displaying any of the above characteristics are categorized as climate transition laggards, and excluded during this second step.</p>	>10% of revenue <sup>6</sup>
Stocks that violate the UN Global Compact	Stocks considered to have business practices that violate the UN Global Compact, for example those involved in very severe ESG controversies such as human rights abuses or corruption (e.g. extortion or bribery).	Based on UNGC violations data provided by third party providers such as MSCI and Sustainalytics.

<sup>6</sup> As supplied by MSCI. Revenue is the latest available year percent of revenue, or maximum estimated percent, a company has derived from the stated activity. MSCI uses total or gross revenue. However, in absence of such, MSCI considers net sales or operating revenue as reported by the company in its financial statements for the purpose of revenue estimations. When companies do not report exact revenue figures for a covered business activity, MSCI provides an estimate of companies' involvement in the subject activity. Revenue estimates do not cover indirect involvement to a business activity, either through a parent company or subsidiary.

<sup>7</sup> Fossil Fuel Companies deemed Climate Transition Laggards are defined as any companies that derive: (a) >10% revenue from the extraction and production of oil and gas (as identified via third party data); or (b) >10% revenue from power generation associated with fossil fuels (thermal coal, liquid fuel and natural gas) as identified via third party data are identified in the first step. In a second step, those companies (identified in the first step) that appear unable or unwilling to transition to the low carbon economy are excluded. To identify companies that appear unable or unwilling to transition to the low carbon economy the Manager employs a proprietary classification model. The Manager's classification model uses proprietary techniques and third party data. Companies showing strong evidence of transitioning towards the low carbon economy are classified climate transition leaders. These climate transition leaders typically exhibit at least one of the following characteristics: a committed/approved science-based target, a strong ability to manage carbon risks, an announced decarbonization target together with carbon intensity below its sector peer group, and/or revenue derived from alternative energy. Conversely companies not displaying any of the above characteristics are categorized as climate transition laggards, and excluded during this second step.

## Fund overview

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## Investment process

### Step 1:

Define the investable universe – Alphinity begins with a universe of high-quality global stocks. This initial universe is then filtered for companies for which:

- Our in-house analysis shows a net positive alignment to one or more of the SDGs.
- No revenues are generated from excluded activities in the fund's charter (exclusions are listed below).
- Exceed minimum ESG criteria, consistent with Alphinity's firm-wide approach (below a level 4 ESG risk - see other ESG considerations below).
- Are approved by the Global Sustainable Compliance Committee

### Step 2:

Identify attractive investment opportunities from the investable universe (consistent with Alphinity's investment process). This includes the integration of ESG considerations into the investment case.

### Step 3:

Construct a balanced portfolio made up of between 25 and 40 stocks (with flexibility to go as high as 70) selected from the investable universe depending on the outcome of:

- fundamental analysis by the investment team;
- analysis of various quantitative factors generated in the proprietary Alphinity Quantitative Model (AQM); and
- an assessment of a company's ESG performance and characteristics.

All portfolio decisions are the sole responsibility of the investment team and are focused on constructing a diversified portfolio of their highest conviction stocks with the objective of maximising risk-adjusted returns. Portfolio construction guidelines limit the fund's exposure to any one company or sector.

## Inclusions

For a company to be invested in by this fund it must have a net positive SDG alignment score.

The SDG alignment score is generated using an in-house methodology which seeks to quantitatively align company revenues with any of the 17 Goals.

The net score includes positive alignment to the relevant SDGs for each segment of company revenues and takes into account any negative alignment. The resulting net alignment is the measure of a company's contribution to the SDGs.

## Exclusions

Negative screens eliminate companies generating more than 5% of their revenues gross (cumulative) from activities that Alphinity considers incongruent with the SDGs. These activities include:

Exclusion	Description
Fossil fuel	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 fuel	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.
Controversial fuels	Production of controversial fuels such as Uranium.
Gold mining	Gold mining, where Gold is the primary purpose of the mine.
Animal welfare	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	Revenues generated from predatory lending activities. Predatory loans are characterised by: <ul style="list-style-type: none"> <li>Excessively high set up costs which are included in the principal of the loan</li> <li>Involvement of one or more intermediaries</li> <li>High ongoing interest rate and default interest rate</li> <li>Swift enforcement action</li> <li>False categorisation as a business or investment loan</li> <li>No access to alternative dispute resolution</li> <li>Reliance on assets rather than income to meet loan repayments.</li> </ul> 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.
Alcohol	Production of alcohol
Gambling	Revenue generated from gambling activities and/or the production of gambling equipment
Old growth forests	Production and sale of timber logged from old growth forest
Palm oil	The production of palm oil that is not RSPO certified
Pornography	Production of pornography
Armaments	Manufacture of armaments

The following exclusions have a 0% revenue threshold:

Exclusions	Description
Tobacco	Production of tobacco products
Controversial Weapons	Production of controversial weapons (anti-personnel mines, nuclear weapons, cluster weapons, biological and chemical weapons, depleted uranium, and white phosphorus munitions).

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## Other ESG considerations

Alphinity believes that the integration of ESG considerations into investment management processes and ownership practices is essential, as these factors can have a significant impact on financial performance. The investment team, with support from internal ESG specialists, identifies and assesses material ESG issues for any stock actively being considered for investment, as well as on an ongoing basis for all stocks in the fund. The outcome of this assessment is an overall ESG risk level (level 1 (low) to level 4 (very high) ESG risk category). Significant matters, as defined by the analyst, are also incorporated into the qualitative assessment of the company, and/or into direct valuation parameters where appropriate, in order to maximise returns and minimise ESG risk. As such, integrating ESG into investment decisions is the responsibility of the investment team and viewed as a key component of Alphinity's fundamental investment analysis.


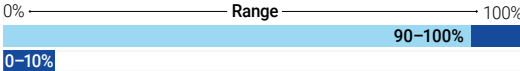
Alphinity use a materiality approach to analyse the balance of ESG factors for a particular company and determine the best path forward. For example, further research, engagement, financial modelling or portfolio construction. When completing this assessment Alphinity includes issues across the short, 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, data and research, 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.

Alphinity takes a risk-based approach to ESG integration, scaling our ESG research efforts depending on the extent of the possible risks and/or opportunities for each company. Concentrating on risk is important because it recognises that ESG factors can have a significant impact on financial performance. This reflects our fiduciary obligation to our clients to both maximise returns and minimise risks. ESG efforts are typically concentrated in the pre-investment and investment phases and for companies with elevated exposure to ESG risks. However, Alphinity do see value in monitoring progress for specific companies within our investment universes where that company may move back into the pre-investment phase, or where that company requires monitoring for benchmarking purposes.

Alphinity is a signatory to the United Nations-backed Principles for Responsible Investment (PRI), official supporters of the Task Force on Climate-Related Financial Disclosures, is a member of the Responsible Investment Association of Australia (RIAA) and also the Investor Group on Climate Change (IGCC). Alphinity aims, wherever possible, to engage with investee companies on material ESG issues. Engagement is used to inform the assessment of ESG risks and opportunities, and to also encourage better ESG practices which reduce risks over time. Alphinity also intends to vote on every resolution put to shareholders.

# Alphinity Sustainable Share

## Fund overview

Objective	The fund aims to outperform the S&P/ASX 300 Total Return Index, before fees, costs and taxes over rolling five-year periods.
Minimum suggested timeframe	At least 7 years
Risk	 <p>Low Medium High</p>
Allocation	 <p>0% ————— Range ————— 100%</p> <p>0-10% 90-100%</p> <p>Australian shares Cash and cash equivalents</p>
Strategy	<p>The fund seeks to build a portfolio of high-quality 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, and which are also identified as undervalued and within an earnings upgrade cycle. Alphinity aims to be invested across different industries and sectors in order to meet the fund's investment objectives in a risk-controlled manner. A company's alignment with the SDGs is assessed using an in-house assessment methodology. This quantitatively aligns the positive and negative contributions the products or services of the company make towards achieving each of the SDGs, to arrive at a net score. The fund will not invest in companies with greater than 10% of gross revenue from the production of products or activities considered incongruent with the SDGs. These include fossil fuels (including the generation of electricity using fossil fuels); uranium; predatory lending; hostile debt collection; tobacco; alcohol; gambling; pornography; armaments; gold (except as a by-product of other mining); logging of old growth forests; non-sustainable palm oil; factory farming; live animal exports; or animal testing for cosmetic products. We tolerate testing in healthcare only where necessary provided stringent policies are in place.</p>



## Investment process

### Step 1:

Define the investable universe – Alphinity begins with the ASX300 and applies a screen to identify companies which meet the following:

- Our in-house analysis shows a net positive alignment to one or more of the SDGs.
- No revenues are generated in line with the fund's charter (exclusions are listed below).
- Exceed minimum ESG criteria, consistent with Alphinity's firm-wide approach (below a level 4 ESG risk - see other ESG considerations below).
- Are approved by the Sustainable Share Fund Compliance Committee.

### Step 2:

Identify attractive investment opportunities from the investable universe (consistent with Alphinity's investment process). This includes the integration of ESG considerations into the investment case.

### Step 3:

Construct a balanced portfolio of 35-55 undervalued quality companies, with positive earnings momentum, constructed in a disciplined risk aware framework. Invariably, Alphinity's portfolio tends towards core with a growth bias, however the portfolio aims to provide consistent strong risk-adjusted returns across different market cycles.

## Exclusions

Negative screens eliminate companies generating more than 10% of their revenues gross (cumulative) from activities that Alphinity considers incongruent with the SDGs. These activities include:

Exclusion	Description
Fossil fuel	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 fuel	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.
Controversial fuels	Production of controversial fuels such as Uranium.
Gold mining	Gold mining, where Gold is the primary purpose of the mine.
Animal welfare	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.

## Inclusions

For a company to be invested in by this fund it must have a net positive SDG alignment score.

The SDG alignment score is generated using an in-house methodology which seeks to quantitatively align company revenues with any of the 17 Goals. The net score includes positive alignment to the relevant SDGs for each segment of company revenues and takes into account any negative alignment. The resulting net alignment is the measure of a company's contribution to the SDGs.

Exclusion	Description
Predatory lending	<p>Revenues generated from predatory lending activities. Predatory loans are characterised by:</p> <ul style="list-style-type: none"> <li>• Excessively high set up costs which are included in the principal of the loan</li> <li>• Involvement of one or more intermediaries</li> <li>• High ongoing interest rate and default interest rate</li> <li>• Swift enforcement action</li> <li>• False categorisation as a business or investment loan</li> <li>• No access to alternative dispute resolution</li> <li>• Reliance on assets rather than income to meet loan repayments.</li> </ul> <p>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.</p>
Alcohol	Production of alcohol
Gambling	Revenue generated from gambling activities and/or the production of gambling equipment
Old growth forests	Production and sale of timber logged from old growth forest
Palm oil	The production of palm oil that is not RSPO certified
Pornography	Production of pornography
Armaments	Manufacture of armaments

The following exclusions have 0% revenue threshold

Exclusions	Description
Tobacco	Production of tobacco products
Controversial Weapons	Production of controversial weapons (anti-personnel mines, nuclear weapons, cluster weapons, biological and chemical weapons, depleted uranium, and white phosphorus munitions).

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## Other ESG considerations

Alphinity believes that the integration of ESG considerations into investment management processes and ownership practices is essential, as these factors can have a significant impact on financial performance. The investment team, with support from internal ESG specialists, identifies and assesses material ESG issues for any stock actively being considered for investment, as well as on an ongoing basis for all stocks in the fund. The outcome of this assessment is an overall ESG risk level (level 1 (low) to level 4 (very high) ESG risk category). Significant matters, as defined by the analyst, are also incorporated into the qualitative assessment of the company, and/or into direct valuation parameters where appropriate, in order to maximise returns and minimise ESG risk. As such, integrating ESG into investment decisions is the responsibility of the investment team and viewed as a key component of Alphinity's fundamental investment analysis.

Alphinity 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 Alphinity includes 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, data and research, 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.



Alphinity takes a risk-based approach to ESG integration, scaling our ESG research efforts depending on the extent of the possible risks and/or opportunities for each company. Concentrating on risk is important because it recognises that ESG factors can have a significant impact on financial performance. This reflects our fiduciary obligation to our clients to both maximise returns and minimise risks. ESG efforts are typically concentrated in the pre-investment and investment phases and for companies with elevated exposure to ESG risks. However, Alphinity do see value in monitoring progress for specific companies within our investment universes where that company may move back into the pre-investment phase, or where that company requires monitoring for benchmarking purposes.

Alphinity is a signatory to the United Nations-backed Principles for Responsible Investment (PRI), official supporters of the Task Force on Climate-Related Financial Disclosures, is a member of the Responsible Investment Association of Australia (RIAA) and also the Investor Group on Climate Change (IGCC).

Alphinity aims, wherever possible, to engage with investee companies on material ESG issues. Engagement is used to inform the assessment of ESG risks and opportunities, and to also encourage better ESG practices which reduce risks over time. Alphinity also intends to vote on every resolution put to shareholders.

# Ausbil Active Sustainable Equity

## Fund overview

Objective	The fund aims to achieve returns (before fees and taxes) in excess of the S&P/ASX 200 Total Return Index over rolling three-year periods by primarily investing in listed Australian companies which meet Ausbil's sustainable approach to investing.
Minimum suggested timeframe	At least 7 years
Risk	 Low Medium High
Allocation	 <b>Target</b> 100.0% 0.0% <b>(Range)</b> (90–100%) (0–10%) Australian shares Cash
Strategy	<p>Ausbil's active investment process aims to exploit the inefficiencies across the market, at all stages of the cycle and across all market conditions, with the aim of producing consistent and risk controlled outperformance, whilst applying its sustainability approach to investing. The fund's sustainable approach to investing initially excludes companies that have material exposure to 'controversial activities'. Ausbil then applies its proprietary Environmental, Social and Corporate Governance (ESG) research to determine the sustainability profile of remaining companies. Companies that Ausbil determines to have poor sustainability profiles are excluded and the fund can invest in companies that are determined by Ausbil to have relatively good sustainability profiles. In addition, Ausbil actively engages with companies on sustainability issues and the wider industry that they operate in.</p>

## Investment process

### Exclude Controversial Activities

Initially, the fund will exclude companies with material direct and/or indirect exposure to controversial activities (see below for more information about material thresholds), as follows:

- the production or distribution of alcohol, gambling, adult content, adult entertainment, tobacco, conventional weapons & armaments (defined as direct exposure including production, trade, testing, maintenance of conventional armaments and indirect exposure for production, distribution, testing, maintenance of critical components and services for conventional armaments), predatory lending products, animal cruelty, the logging of old growth forests
- non-remediated case(s) of human rights violations and/or inadequate risk management of potential human rights violations, including in supply chains
- the mining and/or extraction of uranium and

- the exploration, mining and/or distribution of fossil fuels, such as oil, gas, oil sands and coal, unless a company plays a net positive role in the transition to a low carbon economy. Ausbil's ESG research team has the discretion to use their ESG research to make this assessment and applies it infrequently, based on companies having either:
  - highly credible climate change commitments and/or
  - earnings from decarbonisation-related activities that exceed earnings from activities that have negative climate change impacts.

Material direct (e.g. manufacturing, development, or trading of) and/or indirect (eg provision of services/components to a controversial industry) exposure is defined as 10% or more of earnings from one or a combination of the above controversial activities. A company's earnings before interest and taxes (EBIT) is generally used to assess the earnings of a company and, if it is not available, then another reasonable measure or estimate of earnings is used.

Furthermore, the universe is refined to exclude companies with a direct exposure (0% of earnings) to:

- the production of tobacco and tobacco-based products and
- the production of controversial weapon & armaments defined as production of anti-personnel landmines, cluster bombs, depleted uranium, nuclear weapons, chemical weapons, biological weapons, or production of critical components specially designed for controversial weapons.

## Application of ESG research

Following the exclusion of companies, Ausbil then applies its proprietary ESG research to the remaining companies based on the industry in which the company operates in (i.e. what a company does) and the company's ESG factors (i.e. how a company manages these factors). Ausbil uses this process to determine a company's sustainability profile and sustainability score.

Companies that have poor sustainability profiles in Ausbil's view are filtered and excluded from the investible universe. There are many factors that might

contribute to Ausbil's view that a company has a poor sustainability profile, but examples include companies with poor employee safety and/ or workplace practices and companies that Ausbil considers having significant, persistent and unresolved corporate governance issues, conflicts of interest in ownership and/or poor Board structures.

## Portfolio construction

The remaining companies in the investible universe are regarded as having relatively good sustainability profiles in Ausbil's view. Ausbil ranks each remaining company by equally combining Ausbil's sustainability score (as determined by Ausbil's ESG research) with Ausbil's equity analyst's conviction score, which is determined by Ausbil's proprietary company level research. The final step in Ausbil's sustainable approach to investing is the construction of a portfolio of companies that ensures at least half of the fund's portfolio consists of the top third ranked companies.

## Inclusions

The inclusion screens are explained above in 'Investment process'.

## Exclusions

Exclusions for controversial activities	Material Threshold <sup>1</sup>
The production and/or distribution of alcohol, gambling, adult content, adult entertainment, tobacco, conventional weapons & armaments (defined as direct exposure including production, trade, testing, maintenance of conventional armaments and indirect exposure for production, distribution, testing, maintenance of critical components and services for conventional armaments), predatory lending products, animal cruelty, the logging of old growth forests.	10% of earnings
Non-remediated case(s) of human rights violations and/or inadequate risk management of potential human rights violations, including in supply chains.	10% of earnings
The mining and/or extraction of uranium.	10% of earnings
The exploration, mining and/or distribution of fossil fuels, such as oil, gas, oil sands and coal, unless a company plays a net positive role in the transition to a low carbon economy. Ausbil's ESG research team has the discretion to use their ESG research to make this assessment and applies it infrequently, based on companies having either: <ul style="list-style-type: none"> <li>• highly credible climate change commitments and/or</li> <li>• earnings from decarbonisation-related activities that exceed earnings from activities that have negative climate change impacts.</li> </ul>	10% of earnings
The production of tobacco and tobacco-based products.	0% of earnings
The Production of Controversial Weapons and Armaments defined as anti-personnel landmines, cluster bombs, depleted uranium, nuclear weapons, chemical weapons, biological weapons, or production of critical components specifically designed for controversial weapons.	0% of earnings

<sup>1</sup> **Definition of earnings:** A company's earnings before interest and taxes (EBIT) is generally used to assess the earnings of a company and, if it is not available, then another reasonable measure or estimate of earnings is used.

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## Other ESG considerations

Ausbil believes that engagement with companies contributes to better informed investment decisions, can reduce the risk of capital destruction and can potentially expand the companies that it may invest in.

Ausbil actively engages with companies on sustainability issues and has an active voting policy. The active engagement takes the form of a direct and individual dialogue between Ausbil and companies (e.g. the board, management, sustainable/ESG department etc.) and stakeholders (e.g. industry bodies) through meetings, company visits, written exchanges etc. The aim is to raise the awareness of companies and to receive additional information from companies on specific topics, to encourage them to adopt industry best practice and adopt transparency on environmental, social (including labour standards) and corporate governance (ESG) issues.

In addition to company and industry engagement, Ausbil actively engages at an environmental, social and/or governance policy level, for example submissions to Australian Government or industry body led policy discussions/enquiries. Ausbil also actively participates in relevant collaborative engagements with other investors, e.g. the Principles for Responsible Investment.

## Fund overview

## Reference Guide



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## Investment process

Baillie Gifford's research process aims to identify companies that can sustain high levels of growth over the long term by creating value for society. This process is truly integrated, considering a company's growth prospects and its wider contribution as two sides of the same coin.

Baillie Gifford will initially screen and select companies through a structured research framework. This proprietary qualitative investment process is applied to assess a company's sustainable growth prospects. This investment process evaluates, amongst other matters, a company's products (Products), business practices (Practices), its ambition and commitment to making a difference (Ambition), and the extent to which the quality and track record of its management team provide confidence that the company can and will execute on this opportunity (Trust).

The Sustainable Growth Team takes a bottom-up approach, researching companies' potential to sustain profitable growth over a decade or more while addressing societal and environmental challenges. It seeks businesses with large market opportunities, a clear edge, high-quality management and a strong, differentiated culture. Resilience is central to this assessment, with particular focus on financial strength, adaptability and the robustness of competitive positioning. Valuation is considered not as an exercise in precise forecasting but as a means of testing how differentiated the team's perspective is from the market, and whether this provides the scope for attractive long-term returns.

Research is tested in regular stock discussions with relevant experts across the investment floor, where individual and group conviction in the investment case is established. Companies must demonstrate the ability to create value for society alongside financial growth, and any business deemed inconsistent with this approach is excluded. These discussions also identify key factors to monitor and areas for engagement, ensuring that the team's understanding evolves with company progress.

Portfolio construction is overseen by the lead investment managers, who determine final inclusion subject to the strategy's diversification guidelines. Engagement plays an important role in influencing and guiding company behaviour, with priorities focused on issues most material to long-term success. Baillie Gifford is a patient owner but will exit a holding if conviction in its growth outlook is reduced, it no longer meets their sustainability expectations, or if valuation leaves limited scope for strong long-term returns.

The team combines highly experienced investors with dedicated sustainability analysts to produce genuinely integrated research, bring diverse perspectives, and encourage robust debate. The Sustainable Growth team is supported by the wider Baillie Gifford ESG resource, which now comprises over 40 individuals with different areas of specialisation and responsibility. Research is shared between the investment teams and the ESG resource through an online Research Library, which stores all proprietary analyses and interactions with companies.

The Sustainable Growth team makes these assessments primarily using its own research (including company engagement), with additional insight from third-party data sources (such as Sustainalytics and MSCI). The assessment of a company requires active engagement and demonstration of stewardship through company engagement and analysis.

## Inclusions

The fund aims to own companies whose success is good for society as well as shareholders. Companies that make a difference to the challenges of people, the planet or prosperity, either through:

- What they do – products or services that have a clear benefit to society or
- How they do it – business practices that help to shape industry standards and influence wider change.

While Baillie Gifford map the portfolio holdings to Sustainable Development Goals (SDG), where applicable, this is an outcome of the investment process, not an input. The team does not begin with specific goals but assesses companies on their long-term growth and contribution to society.



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## Exclusions

While the inclusion-focussed research process is unlikely to allow harmful companies into the portfolio, Baillie Gifford recognise the additional reassurance that some investors take from a set of mechanistic exclusions. The following screens are therefore in place:

- A norms-based evaluation of breaches of the United Nations Global Compact Principles for Business and
- A revenue-based evaluation of companies that derive more than 10 per cent of gross annual revenues from:
  - the production or sale of alcohol
  - the production or sale of armaments
  - the production or sale of adult entertainment
  - fossil fuel extraction and/or production<sup>1</sup>
  - the provision of gambling services or
  - the sale of tobacco.<sup>2</sup>

Baillie Gifford also has a firm-wide policy that prohibits investment in controversial weapons. These are defined as certain types of military weapons that are considered controversial because of their potentially disproportionate or indiscriminate effects. International treaties and conventions exist to limit their production and use, though this is an inherently complex area that continues to evolve.

Baillie Gifford seeks to avoid investment in holdings directly involved in producing controversial weapons, or the components or services that are essential to and tailor-made for them. This policy applies specifically to the following types of weapons:

- Anti-personnel mines
- Biological and chemical weapons
- Cluster munitions
- Depleted uranium weapons
- White phosphorus incendiary weapons
- Nuclear weapons (where such weapons are likely to be in breach of the objectives of the Treaty on the Non-Proliferation of Nuclear Weapons).

In addition, Colonial First State Investments Limited as the Responsible Entity, does not allow any FirstChoice portfolio to invest in companies that are engaged in the production of tobacco or manufacture of controversial weapons. Please refer to the CFS website for more information about our [exclusions policy](#).

## Other ESG considerations

As a long-term sustainable investor, company engagement is an important part of the investment process. This allows a focus on 10–15 engagement priorities each year and taking a measured but impactful approach.

The Fund is committed to investing in a way that is aligned with a scenario that limits global temperature increases to 1.5c.

The Sustainable Growth team also believes that a successful transition offers clients a better opportunity for strong long-term investment returns than a failed transition.

<sup>1</sup> Companies involved in the extraction and/or production of oil and gas or the mining and sale of thermal coal, including lignite, bituminous, anthracite and steam coal. It excludes revenue from metallurgical coal, coal mined for internal power generation, intra-company sales of mined thermal coal, and revenue from coal trading.

<sup>2</sup> Tobacco products include nicotine-containing products, including traditional and alternative tobacco smoking products.

## Fund overview

26 Sustainable Funds

## Investment process

To align our investment approach with the sustainable criteria, the fund uses active management to effectively manage inclusions, exclusions and active ownership. This fund allocates 80% of investments to growth assets such as Australian and global shares to provide potential for capital growth, and 20% to defensive assets such as fixed interest and cash. In order to provide additional diversification, the portfolio is allocated across a number of investment managers. Allocations to asset classes will generally align to the benchmark but the fund may adjust its exposure within the allocation ranges in response to changes in risk and return expectations. The portfolio aims to hedge currency risk except for part of the allocation to global shares.

### Manager alignment

Thrive+ has a robust and consistent process to select investment managers that are aligned with the fund's financial objective and strategy. This includes investment and operational due diligence to assess the required capabilities of the investment managers prior to appointment.

The manager appointment process is complemented by continuous monitoring, which includes regular manager meetings and quantitative assessments from specialist third-party providers such as MSCI.

### Monitoring

Our in-house Investment team regularly monitor the investment managers including any change to their investment process, performance and characteristics of the portfolio. We review the Environment, Social and Governance factors and the climate metrics using MSCI as our third-party data provider (we follow MSCI definitions and methodology for these metrics). We closely monitor the portfolio's alignment to the Charter, and the ESG practices and carbon metrics compared to their respective benchmarks.

### Engagement, Voting and Advocacy

Thrive+ uses a stewardship provider, EOS at Federated Hermes, who supplies proxy voting recommendations for non-Australian shares and engages with investee companies on the fund's behalf. This is over and above the engagement that is done by Thrive's investment managers. For Australian shares, voting is conducted by Thrive+ investment manager/s.

## Inclusions

Thrive+ seeks out companies that are aiming to achieve sustainable outcomes in the following themes:

Climate change	Addressing climate change, delivering climate change solutions and benefit from the transition to net zero emissions.
Resource efficiency	Addressing the need to use/protect scarce natural resources wisely and manage waste sustainably.
Sustainable communities	Addressing the need for affordable housing and encouraging inclusive and sustainable communities.
Healthcare	Addressing healthcare challenges and focussing on wellbeing and nutrition.
Diversity & Inclusion	Addressing gender and racial/ethnic diversity and inclusive challenges at all levels of the workforce.

## Exclusions

The fund seeks to avoid companies<sup>1</sup> involved in the following activities:

Certain fossil fuels <sup>2</sup>	Derive more than 5% of gross revenues <sup>3</sup> from: <ul style="list-style-type: none"><li>• Thermal Coal: Thermal coal mining, extraction, production, refining, processing or power generation.</li><li>• Oil &amp; Gas – Conventional/Unconventional: Oil and gas exploration, production and refining. Oil includes oil sands, Tar Sands, shale oil. Gas includes Coal Seam Gas, shale gas and coal bed methane.</li></ul>
Weapons	<ul style="list-style-type: none"><li>• Weapons – Nuclear: Manufacture and/or store fissile materials used in/for nuclear weapons. Manufacture nuclear warheads and/or missiles. Produce uranium for nuclear weapons.</li><li>• Weapons – Controversial: Manufacture of whole weapon systems, delivery platforms or components of cluster munitions; production of whole weapon systems or components of landmines and biological or chemical weapons; production of depleted uranium weapons, blinding laser weapons, incendiary weapons, or weapons with non-detectable fragments.</li><li>• Weapons – Conventional: Manufacture conventional weapons such as Military Weapons that are not controversial weapons. This means that conventional weapons would typically not have the potential to cause excessive or indiscriminate harm, violate international norms, or mass destruction.</li></ul>
Pornography	Production of adult entertainment.
Gambling	Own or operate gambling facilities, online gambling websites, or platforms, or mobile applications.
Tobacco & nicotine alternatives	Production of tobacco, including nicotine-containing products, (traditional and alternative tobacco smoking products). This also includes companies that grow or process raw tobacco leaves.
Alcohol	Production of Alcohol including brewers, distillers, and vintners.
Predatory lending	Unscrupulous lending practices that provide credit that incorporates interest rates, fees and/or contractual terms that do not reflect appropriate risk-based pricing and are unfair on borrowers.

Exclusions form part of the investment management agreements with our appointed managers. CFSIL as a Responsible Entity has instructed Investment managers not to purchase or hold a short position in equity or debt securities (or single name derivatives that would otherwise provide effective exposure to the excluded securities) issued by companies or their subsidiaries for the activities listed above. Whilst we make every endeavour to exclude these companies, there may, from time to time, be a small level of unintended exposure due to lack of data, corporate activity, indirect exposure or exposure through index derivatives, ETFs or third party managed pooled unit trusts. If we find that the fund holds an excluded security, we will instruct the relevant manager to sell down in an orderly manner.

<sup>1</sup> An exemption applies to some fixed income investments 'use of proceeds' securities such as green, social, and sustainability bonds issued by companies, that may have otherwise been screened out, to fund projects with dedicated environmental and/or social benefits and to government, government related/supranationals. Exemptions do not apply to sustainability-linked bonds.

<sup>2</sup> In certain circumstances, there may be an exception to the less than 5% revenue threshold if a company has publicly reported, in line with the Task Force on Climate-related Financial Disclosures (TCFD), on its progress to net zero by 2050 with a clear transition plan that also addresses the decommissioning, rehabilitation and social impacts of the transition. This will only be considered for a company where the excluded fossil fuel revenues remain a small part of their overall revenue.

<sup>3</sup> We use a third party data provider to supply threshold data and they will generally provide this for total or gross revenue. However, where this is not available, they will consider net sales or operating revenue as reported by the company in its financial statements for the purpose of revenue estimations. Note that the stated exclusions do not apply to cash, derivative instruments, exchange traded funds and third party pooled unit trusts.

# MetLife Global Bond

## Fund overview

Objective	To seek to simultaneously create a positive and verifiable environmental and social impact whilst targeting a total return in excess of the Bloomberg Global Aggregate Index hedged to Australian dollars before fees and taxes over rolling three-year time periods.
Minimum suggested timeframe	At least 3 years
Risk	<div><div></div><div></div><div></div><div></div><div>5</div><div></div><div></div><div></div><div></div><div></div></div> <div>LowMediumHigh</div>
Allocation	<div><div></div><div>Target 100%</div><div>Cash and global fixed interest</div></div>
Strategy	This fund focuses on investing mainly in global fixed income instruments determined to generate positive environmental or social impact, including green, social and sustainability bonds, but may use derivatives for exposure or risk management. This fund seeks financial returns with environmental and social impact through a three-step process: verification (SPECTRUM methodology), portfolio management, and evidence. The SPECTRUM verification process screens issues and issuers for measurable impact, underpinned by issuer engagement. The manager also applies issuer-level exclusions for controversial activities and sectors. The investable universe consists only of bonds meeting the verification criteria. The fund aims to hedge currency exposure.

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## Investment process

In seeking to invest for financial returns alongside environmental and social impact, the fund is managed through a three-step investment process: verification, portfolio management and evidence. The verification process, termed SPECTRUM, includes both sustainability and credit assessments at both the issue, use of proceeds, and issuer level. This verification process is performed by the Public Fixed Income (PFI) Global Credit Research Team. The sustainability assessment is performed by the Sustainability Research Team, who are an integrated team in the Global Credit Research Team.

The output of this process is an investable universe, the SPECTRUM Bond® universe from which the portfolio management team manage the fund for financial returns. This universe encompasses green, social and sustainable bonds. These bonds are defined as bonds supporting environmental and social activities/projects. Unlabelled bonds by sustainable and responsible issuers can also be included.

In addition to this research-based SPECTRUM methodology, the fund also applies issuer-level exclusions for controversial activities and sectors. The fund also applies a list of 'sustainable investment' criteria that encourages investment in companies with a sustainable business and notable Environmental, social and governance characteristics. It seeks to avoid investments in certain companies or activities that have an adverse effect on the environment or society<sup>1</sup>.

The manager invests only in bonds that fulfil the SPECTRUM verification criteria. All verification analysis is stored in the manager's proprietary research and impact reporting database, ARCH. To evidence the impact achieved, the manager reports on the environmental and social impact of the fund in a portfolio-specific annual Impact Report.

The credit review starts with the 'base credit check'. This is an initial view of the issuer to determine whether the Sustainability Research Team should embark on the SPECTRUM process. The objective is to ensure time is not allocated to issues that will not qualify from a credit perspective. If the issuer passes the 'base' check it will be subject to the full SPECTRUM process.

For a security to be included in the portfolio it will undergo a credit assessment by the Credit Research team, which incorporates quantitative, fundamental and qualitative analysis. The Fixed Income Credit Research Team works together with the Portfolio Management team on the approved credits and overlay an issuer's fundamental credit opinion with relative value/outlook for spreads.

From a credit perspective, this includes a full credit review to ensure the issuer is credit worthy, with resilient cash flows and liquidity. Credit analysis is also important in the portfolio management process, the second stage of the investment process.

Risk appropriate ideas undergo a credit assessment by the Credit Research team, which incorporates quantitative, fundamental and qualitative analysis. The PFI Global Credit Research Team works together with the portfolio management team on the approved credits and overlay an issuer's fundamental credit opinion with relative value/outlook for spreads. An issuer that passes the credit and sustainability review may not have a place in the portfolio if the current yield spread is not deemed to be attractive.

Fundamental research is the cornerstone of the investment process. Emphasis is placed on the quality of research efforts and a global credit research team of 73 analysts are employed in this department. The Global Credit Research Team, which includes the Sustainability Research Team, is organised by industry and sector, with sector leads responsible for their sector across the credit spectrum and for leading dedicated industry specialists who are responsible for conducting research to build a comprehensive understanding of each security.

The evaluation by the sustainability team is designed to identify impact and to integrate ESG criteria. The sustainability team conduct a full evaluation of the issuer framework and use of proceeds analysis, as well as the responsible issuer ESG performance.

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<sup>1</sup> An exemption applies to some fixed income investments 'use of proceeds' securities such as green, social, and sustainability bonds issued by companies, that may have otherwise been screened out, to fund projects with dedicated environmental and/or social benefits and to government, government related/supranationals. Exemptions do not apply to sustainability-linked bonds.

As part of the SPECTRUM verification process, the sustainability team assesses the ethics and issuer conduct for each issue. This involves a review of the social and governance factors, such as board structure, human rights, human capital management and supply chain management. Engagement, as defined by the Principles for Responsible Investment (PRI), seeks to influence ESG practices or disclosure and is a core part of the SPECTRUM verification, credit research, and impact-reporting processes.<sup>2</sup> The discussions during engagements cover topics such as broad market issues, evolving themes, ESG controversy and disclosure and reporting. The resulting insights influence whether to include or exclude the framework/issuer from the universe.

Impact reporting is the third part of the three-step investment process and performs two functions. It is an annual review by the Sustainability Research Team of how the use of proceeds for held securities have been allocated to confirm this was in line with our expectations at verification and to confirm this remains an appropriate holding for the portfolio. The data collection done at this stage enables us to produce a comprehensive impact report with information about project allocations, KPIs and issuer metrics allowing our clients to understand, on an annual basis, the impact their investments have supported environmentally and socially.

## Inclusions

The manager's verification process includes both sustainability and credit assessments at both the issue, use of proceeds, and issuer level. The output of this process is an investable universe, the SPECTRUM Bond® universe. The verification process is one of positive selection to identify and screen both issues and issuers for meaningful and measurable impact.

The verification process is one of positive selection across the following criteria:

Sustainable	Aligned with the fund's purpose to support the UN SDGs and Paris Agreement on Climate Change.
Positive externalities	Positive environmental and/or social externality associated with their issuance. Criteria include: social and environmental sectors, geographical and socio-economic context, policy and strategy context.
Ethics and issuer conduct	Issuers must have appropriate governance, policies and operational conduct. Criteria include: human resources management, tax transparency, marketing practices and technology resilience.
Credit	Issuers must be credit worthy from a financial perspective. Criteria include: industry outlook, competitive position, country risk.
Transparent	Clear and transparent investment policies and processes on reporting and disclosure. Criteria include: disclosure of project portfolio, project assessment disclosure, commitment to output reporting.
Responsible issuer	Issuers with ESG standards and commitment to a sustainable model. Criteria include: positive ESG policies, programs and performance.
Use of proceeds	Ability to determine use of proceeds in the issuer framework to assure funded activities meet the sustainability criteria. Criteria include: separate accounting for impact bond proceeds, external review, project alignment.
Measurable impact	All securities must offer mainstream market yields and provide reporting on the material and measurable environmental and social impacts. Criteria include: impact KPIs (e.g. renewable installed capacity, energy type for power generation, passenger-km for clean transport projects), baseline and target disclosures, impact reports to stakeholders.

<sup>2</sup> maindefinitionstoprireportingframework\_127272\_949397.pdf (unpri.org)



## Exclusions

The manager is also responsible for monitoring portfolio compliance with investment guidelines and restrictions.

To monitor overall portfolio risks throughout the investment process, the investment team has fully integrated BlackRock Solutions for trade-order management, compliance guideline monitoring, daily review of risk analytics, ex-ante tracking error and scenario analysis, and conducting performance attribution of client portfolios. The exclusionary criteria, as set out below, are coded into the integrated BlackRock Solutions compliance guideline monitoring.

The fund will seek to avoid bonds from companies that are involved in the following industries or practices.<sup>3</sup>

<b>Certain fossil fuels<sup>4</sup></b>	Derive more than 5% of gross revenues <sup>5</sup> from: <ul style="list-style-type: none"><li>• Thermal Coal: Thermal coal mining, extraction, production, refining or processing.</li><li>• Oil &amp; Gas – Conventional/Unconventional: Oil and gas exploration, production and refining. Oil includes oil sands, tar sands, shale oil. Gas includes Coal Seam Gas and shale gas.</li><li>• Thermal coal power generation.</li></ul>
<b>Weapons &amp; firearms</b>	Weapons – Nuclear: Manufacture and/or store fissile materials used in/for nuclear weapons. Manufacture nuclear warheads and/or missiles. Produce uranium for nuclear weapons. Weapons – Controversial: Manufacture including chemical and biological weapons, cluster munitions, antipersonnel landmines, and blinding lasers. Weapons/Firearms – Conventional: Manufacture conventional weapons.
<b>Pornography</b>	Produce X-rated films, sexually explicit video games, magazines or adults-only internet material.
<b>Gambling</b>	Own or operate gambling facilities, online gambling or mobile gambling.
<b>Tobacco &amp; nicotine alternatives</b>	Producers that grow/process or manufacture including cigars, cigarettes, e-cigarettes, inhalers, snuff and chewing tobacco.
<b>Alcohol</b>	Manufacture including brewers, distillers, and vintners.
<b>Predatory lending</b>	Unscrupulous lending practices that provide credit that incorporates interest rates, fees and/or contractual terms that do not reflect appropriate risk-based pricing and are unfair on borrowers.

These exclusions form part of the investment management agreement. From time to time, due to timing differences between activities of a company (for example where there has been an acquisition or divestment), the reporting of a company's activities or an error by an external service provider, some companies may temporarily fall outside.

<sup>3</sup> An exemption applies to some fixed income investments 'use of proceeds' securities such as green, social, and sustainability bonds issued by companies, that may have otherwise been screened out, to fund projects with dedicated environmental and/or social benefits and to government, government related/supranationals. Exemptions do not apply to sustainability-linked bonds.

<sup>4</sup> In certain circumstances, there may be an exception to the less than 5% revenue threshold if a company has publicly reported, in line with the Task Force on Climate-related Financial Disclosures (TCFD), on its progress to net zero by 2050 with a clear transition plan that also addresses the decommissioning, rehabilitation and social impacts of the transition. This will only be considered for a company where the excluded fossil fuel revenues remain a small part of their overall revenue.

<sup>5</sup> A third party data provider is used to supply threshold data, generally in the form of total or gross revenue. Where this is not available net sales or operating revenue as reported by the company in its financial statements may be used for the purpose of revenue estimations.



## Fund overview

## Investment process

## Inclusions

- renewable and sustainable energy generation, energy grids and grid modernisation, energy storage, sustainable fuels

- higher yielding/lower impact agricultural production, precision agriculture, sustainable production, controlled environment agriculture, healthier/more sustainably produced foods, more efficient food processing, sustainable packaging, more efficient supply chains and logistics, reduced wastage
- building energy efficiency, sustainable/lower environmental impact design, sustainable construction/materials, smart home/smart energy management
- vehicle electrification, low/zero emission fuels, energy/fuel efficiency, modal shifts, transport and mobility solutions, autonomous Driving/ADAS, transport safety, safety, efficient logistics solutions
- IIoT, robotics and automation, advanced manufacturing, process efficiency solutions, sustainable processes and feedstocks, energy efficiency, advanced materials, industrial safety
- diagnostic technologies, mobile/wearable diagnostic technologies (mHealth), data management, digital solutions for healthcare delivery (eHealth), digital solutions for process

efficiency, surgical robotics and automation, therapeutic devices, genomic diagnostics and treatments

- recycling, sustainable materials, recyclable materials, recyclable and re-useable products, energy efficient products
- cloud computing, AI/machine learning, information services, financial technology, business process efficiency, online retail and services
- waste management, pollution control, sustainable water usage, environmental management, environmental remediation, carbon capture and sequestration.

Companies are eligible for inclusion within the investment universe where they are assessed by Nanuk to have more than 25% of their enterprise value derived from activities within the value chain of these relevant industries, technologies, products and services, with such assessment being necessarily subjective but typically based on forecast operating profits. The particular industry must be material to the economics of the particular activity.

## Exclusions

Refer to the exclusion tables below.

### Environmental factors

Factor	Involvement	Definition	Threshold (% of revenue)
Coal	Exploration and Extraction	Extraction and sale of thermal and metallurgical coal	0%
	Processing	Involvement in coal processing, including coal-to-gas	0%
	Generation	Generation of electrical power from coal	10% provided 2050 net zero emission target and strategy to exit or close by 2030, otherwise 0%
	Distribution	Services related to distribution of coal, including transport, operation of infrastructure, trading	30%*
	Service	Non-specific services and equipment related to the production of coal	30%*
Oil	Exploration and Production	Exploration, drilling and extraction of oil	0%
	Refining	Involvement in oil refining	0%
	Generation	Generation of electrical power from oil	5% provided 2050 net zero emission target and strategy to exit or close by 2030, otherwise 0%

Factor	Involvement	Definition	Threshold (% of revenue)
	Distribution	Services related to distribution of oil, including storage, transport, operation of infrastructure, trading	30%*
	Service	Non-specific services and equipment related to the production of oil	30%*
Natural Gas	Exploration and Production	Exploration, drilling and extraction of natural gas	0%
	Processing	Involvement in natural gas processing and gas to liquids operations	0%
	Distribution	Involvement in natural gas infrastructure	10%
	Generation	Electricity generation from natural gas	10% provided net zero emission target and strategy to exit or close, otherwise 0%
	Services	Services and equipment related to the extraction of natural gas	30%*
Fossil Fuels	Financing	Provision of financing (equity or debt) to companies engaged in oil, gas or coal exploration, production, or mining	0%
	Unconventional Extraction	Direct involvement in exploration and extraction of fossil fuels from hydraulic fracturing, arctic drilling, oil sands	0%
Other Mining	Mining	Specified mining activities	No restriction
De-forestation	Forestry and Logging	Deforestation of primary forest, illegal logging activity or unsustainable harvesting. Forestry activities or sourcing of timber not in line with internally recognised standards for sustainable forestry	0%
Palm Oil	Production	Production and processing of palm oil not certified by RSPO	0%

## Weapons and armaments

Factor	Involvement	Definition	Threshold (% of Revenue)
Military Combat Equipment	Production	Production of combat equipment or key components specific to combat equipment; includes weapons, weapons systems and ammunition. Does not include military specification versions of commercially available technology and equipment not specific to military usage.	0%
	Services	Services related to combat equipment	10%
	Distribution	Reselling of combat equipment	0%
Military Non-Combat Equipment	Production	Production of non-combat equipment: non-combat military vehicles; electronic equipment, software, and simulators; equipment for the manufacture of military equipment; and training equipment. In all cases this equipment must be designed or modified on the basis of military specifications.	10%
	Services	Services related to non-combat equipment	10%
	Distribution	Reselling of non-combat equipment	10%
Civilian Firearms	Production, sales, or provision of services	Civilian firearms, including assault weapons, automatic firearms, semi-automatic firearms, repeating firearms, single-shot firearms, ammunition, or high-capacity magazines	0%

Factor	Involvement	Definition	Threshold (% of Revenue)
Controversial weapons	Production or trading or supply of key components	Controversial weapons. Including anti-personnel mines, biological weapons, chemical weapons, cluster munitions, depleted uranium, incendiary weapons	0%

## Ethical factors

Factor	Involvement	Definition	Threshold (% of Revenue)
Alcohol	Production	Production of beer/wine/spirits	0%
Animal Welfare – Factory Farming	Production	Intensive agricultural operations with the purpose of producing food, including meat, eggs, and dairy	Subject to norms around animal welfare and environmental standards
Animal Welfare – Commercial Fishing	Production		0%
Animal Welfare – Fur	Production	Breeding / hunting / trapping animals. Processing of furs.	0%
Animal Welfare – Animal Testing	Testing	Animal testing not related to medical, pharmaceutical or food, or not in accordance with accepted international standards and regulations. (Note: this restriction is intended to exclude companies utilising animal testing for products without significant benefit to humans or animals (such as cosmetics), or excessive or unnecessary testing or testing not undertaken in a manner intended to limit the extent and impact on animal subjects.)	0%
Cannabis	Production, Distribution	Cultivation, processing and production of cannabis products for non-medical usage	0%
Correctional Facilities	Operation	Operation of correctional and/or detention facilities, including immigration detention centres	0%
Gambling	Operation	Operation or management of activities involving the wagering of money	0%
Hazardous Pesticide	Production and Sales	Pesticides with technical grade active ingredients classified by WHO as highly or extremely hazardous	0%
Nuclear Power	Mining	Uranium mining and processing	0%
	Generation	Electricity generation from nuclear reactors	10% and > Renewables
Pornography	Production	Production of explicit content	0%
	Distribution	Distribution of explicit content	0%
Predatory Financing	Involvement	High interest credit cards, rent-to-own financing, and other predatory financial services	0%
Tobacco	Production	Manufacturing of tobacco-based products and nicotine alternatives. Includes growing and processing tobacco leaves	0%
	Other Services	Production or supply of key products necessary and intended for the production of tobacco products (excludes packaging)	0%

## Norms Based Factors

Factor	Involvement	Details	Threshold
Human Rights	Support and respect human rights  Ensure non-complicity in human rights abuses	<ul style="list-style-type: none"> <li>• Deceptive, misleading and fraudulent practices</li> <li>• Differentiated treatment of consumers on the grounds of disability</li> <li>• Differentiated treatment of consumers on the grounds of race</li> <li>• Differentiated treatment of consumers on the grounds of gender</li> <li>• Differentiated treatment of consumers on the grounds of sexual orientation</li> <li>• Differentiated treatment of consumers on the grounds of religious affiliation</li> <li>• Differentiated treatment of consumers on the grounds of age</li> <li>• Discriminatory treatment of consumers</li> <li>• Industrial accident</li> <li>• Failure to conduct human rights due diligence</li> <li>• Failure to manage cybersecurity</li> <li>• Failure to prevent social discrimination</li> <li>• Failure to prevent social discrimination on the grounds of gender</li> <li>• Failure to prevent social discrimination on the grounds of race</li> <li>• Failure to prevent social discrimination on the grounds of sexual orientation</li> <li>• Failure to prevent social discrimination on the grounds of disability</li> <li>• Failure to prevent social discrimination on the grounds of religious affiliation</li> <li>• Failure to prevent social discrimination on the grounds of age</li> <li>• Failure to respect children's rights</li> <li>• Failure to respect the right to self- determination</li> <li>• Failure to respect the right to water</li> <li>• Failure to remediate forced displacement</li> <li>• Failure to respect freedom of expression</li> <li>• Failure to respect consumers' rights</li> <li>• Failure to respect consumer health and safety</li> <li>• Failure to respect the right not to be subjected to torture /inhumane treatment</li> <li>• Failure to respect indigenous rights</li> <li>• Failure to respect consumers' right to privacy</li> <li>• Failure to respect the right to an adequate standard of living</li> <li>• Failure to respect the right to health</li> <li>• Failure to respect traditional knowledge</li> <li>• Failure to respect the right to life</li> <li>• Failure to mitigate risk of military/security supplies being used in violation of human rights</li> <li>• Failure to pay fair share of taxes</li> <li>• Opposition to tobacco control</li> <li>• Poor stakeholder consultation</li> </ul>	Verified failure to respect established norms, with severe consequences and no remediation measures announced or undertaken

Factor	Involvement	Details	Threshold
Labour Standards	<p>Uphold freedom of association and right to collective bargaining</p> <p>Eliminate forced labour and compulsory labour</p> <p>Abolish child labour</p> <p>Prevent discrimination in respect of employment and occupation</p>	<ul style="list-style-type: none"> <li>• Failure to mitigate the impacts of the production/use of hazardous substances on workers</li> <li>• Failure to prevent child labour</li> <li>• Failure to prevent forced labour</li> <li>• Failure to prevent workplace discrimination</li> <li>• Failure to prevent workplace discrimination on the grounds of gender</li> <li>• Failure to prevent workplace discrimination on the grounds of race</li> <li>• Failure to prevent workplace discrimination on the grounds of sexual orientation</li> <li>• Failure to prevent workplace discrimination on the grounds of age</li> <li>• Failure to prevent workplace discrimination on the grounds of religious affiliation</li> <li>• Failure to prevent workplace discrimination on the grounds of disability</li> <li>• Failure to provide equal pay for work of equal value</li> <li>• Failure to respect the right to an adequate living wage</li> <li>• Failure to respect the right to just and favourable conditions of work</li> <li>• Failure to respect the right to safe and healthy working conditions</li> <li>• Failure to respect union rights</li> <li>• Sexual harassment in the workplace</li> <li>• Union avoidance</li> <li>• Worst forms of child labour</li> <li>• Supply chain – use of controversial suppliers or subcontractors</li> <li>• Lawsuit</li> </ul>	Verified failure to respect established norms, with severe consequences and no remediation measures announced or undertaken
Environmental	<p>Support precautionary approach to environmental challenges</p> <p>Promote environmental responsibility</p> <p>Encourage development and diffusion of environmentally friendly technologies</p>	<ul style="list-style-type: none"> <li>• Failure to assess environmental impacts</li> <li>• Failure to mitigate climate change impacts</li> <li>• Failure to mitigate the production/distribution of hazardous substances</li> <li>• Failure to prevent deforestation/illegal logging</li> <li>• Failure to prevent depletion of biodiversity</li> <li>• Failure to prevent air pollution</li> <li>• Failure to prevent oil spill</li> <li>• Failure to prevent pollution</li> <li>• Failure to prevent soil pollution</li> <li>• Failure to prevent water pollution</li> <li>• Opposition to climate change mitigation</li> <li>• Poor nuclear safety, poor waste management</li> </ul>	Verified failure to respect established norms, with severe consequences and no remediation measures announced or undertaken

Factor	Involvement	Details	Threshold
Business Malpractice	Businesses should work against corruption in all its forms, including extortion and bribery	<ul style="list-style-type: none"> <li>Accounting fraud</li> <li>Anti-competitive behaviour</li> <li>Failure to prevent bribery</li> <li>Failure to prevent money laundering</li> </ul>	Verified failure to respect established norms, with severe consequences and no remediation measures announced or undertaken
Economic and Trade Sanctions	Businesses should comply with international trade restrictions and sanctions	<p>Violation of international sanctions</p> <p>Identified as subject to sanctions imposed by national and multi-national sanctioning authorities, including the following:</p> <ul style="list-style-type: none"> <li>Australia's Department of Foreign Affairs and Trade</li> <li>Canada's Department of Foreign Affairs, Trade and Development</li> <li>European Union</li> <li>Japan's Ministry of Finance</li> <li>Switzerland's State Secretariat for Economic Affairs</li> <li>United Kingdom's Her Majesty's Treasury</li> <li>United Nations</li> <li>United States's Department of the Treasury Office of Foreign Assets Control (OFAC).</li> </ul>	<p>Verified failure to comply with international sanctions and no remediation measures announced or undertaken</p> <p>Identification as a designated entity under nominated sanctions regimes</p>

## Notes to the Exclusion tables

Thresholds, where applicable, apply to net sales revenue. Exceptions may be made where the relevant businesses are marked for sale or closure, or the nature of the involvement is trivial and unrelated to the primary operations of a company. Exclusions related to fossil fuel based generation do not apply to cogeneration or backup power supply for business whose primary activities do not include electricity generation. The threshold for involvement in distribution and services related to the fossil fuel industry (\*) is an aggregate threshold covering involvement in all forms of fossil fuels and all types of related services. The exclusion relating to weapons and military products relates to products specific to these applications and does not cover military specification versions of products sold for other commercial applications.

Norms based factors are assessed with reference to internationally recognised frameworks including the UN Global Compact, the OECD Guidelines for Multinational Enterprises, and the UN Guiding Principles for Business and Human Rights.

# Pendal Sustainable Australian Fixed Interest

## Fund overview

Objective	The fund aims to provide a return (before fees, costs and taxes) that exceeds the Bloomberg AusBond Composite 0+ Yr Index by 0.75% p.a. over rolling three-year periods. The fund offers an active tilt to impact bonds (green/climate, social and sustainability) to support positive societal and/or environmental outcomes (including advancement of United Nations Sustainable Development Goals).
Minimum suggested timeframe	At least 3 years
Risk	<div><div></div><div></div><div></div><div>4</div><div></div><div></div><div></div></div> <div>LowMediumHigh</div>
Allocation	<div><div></div><div>Target 100%</div><div>Cash and fixed interest</div></div>
Strategy	<p>The fund offers investors access to a diversified portfolio of fixed interest securities and seeks exposure to issuers that demonstrate Environmental, Social and Corporate Governance (ESG) and ethical practices while avoiding exposure to issuers with activities that Pendal considers to negatively impact the environment and/or society, by investing in securities (including green bonds, social bonds and sustainable bonds) that pass Pendal's ethical screens and sustainability assessment.</p> <p>The fund will not invest in issuers<sup>1</sup> directly involved in the production of tobacco (including e-cigarettes and inhalers), manufacture of controversial weapons, manufacture of alcohol, ownership or operation of gaming facilities, production of pornography and predatory lending; or that derive revenues from thermal coal, unconventional oil/gas or conventional oil/gas or fossil fuel utilities. Ethical screens are not applied to government securities, cash or derivatives. The use of derivatives may result in the portfolio having indirect exposure to the excluded issuers.</p> <p>In managing the fund, Pendal draws on internal and external research to assess issuers on their sustainability performance (managing exposures to ESG risks and opportunities), relative to peers. In addition to employing a sustainability assessment (where any issuer must pass the Pendal's sustainability threshold), ethical screens are applied to avoid exposure to issuers with activities that Pendal considers to negatively impact the environment or society. Pendal actively engages with relevant issuers to manage risk, effect change and realise potential value over the long term.</p>

<sup>1</sup> An exemption applies to some fixed income investments 'use of proceeds' securities such as green, social, and sustainability bonds issued by companies, that may have otherwise been screened out, to fund projects with dedicated environmental and/or social benefits. An exemption also applies to government, government related and supranationals. Exemptions do not apply to sustainability-linked bonds.



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## Investment process

Pendal's investment process for fixed interest aims to add value through multiple strategies and investment research including active security (including green bonds, social bonds and sustainable bonds) and sector selection, duration, yield curve, and credit management. Pendal's process draws on quantitative and technical models in tandem with a qualitative fundamental overlay to generate excess returns. The investment process comprises of three main steps: macro inputs, credit/government research and portfolio construction. The macro input stage uses a combination of quantitative, qualitative and technical analysis. This drives the top down view on yields (duration/yield curve), credit spread direction and sector allocations. The credit and government research process incorporates fundamental issuer analysis, quantitative issuer modelling, ESG research and valuations to identify investment opportunities whilst avoiding deteriorating credits. The portfolio construction stage combines the macro inputs and the bottom up credit research arrived at during the investment process.

## Inclusions

The fund also seeks investments in securities (including green bonds, social bonds and sustainable bonds) that in addition to meeting financial risk and return requirements also aim to generate positive and measurable social and/or environmental outcomes and where possible, contribute towards the advancement of the United Nations Sustainable Development Goals.

Pendal focuses on four key criteria for assessment of Green, Social and Sustainable bonds.

### 1 Use of proceeds

Pendal assess the use of proceeds and it should meet the following criteria:

- Bonds where the proceeds (or an equivalent amount) are exclusively applied to finance or re-finance, in part or in full, projects or activities with dedicated environmental benefits (green projects) and/or
- Bonds where the proceeds (or an equivalent amount) are exclusively applied to finance or re-finance, in part or in full, projects or activities that achieve positive social outcomes and/or address a social issue (social projects).

Eligible green projects include but are not limited to renewable energy generated, emissions avoided, low carbon transport, hectares of forest restored, and litres of water cleaned, recycled or treated.

Eligible social projects include but are not limited to social and affordable housing, underprivileged students educated, teachers trained in developing countries, microfinance loans made to financially underserved entrepreneurs in developing countries, loans made to female owned micro, small and medium enterprise with little access to sources of financing and enabling access to information and communication technology.

### 2 Criteria guidelines

Green, Social and Sustainable Bonds should have a sufficiently independent or qualified process for selecting projects, and an appropriate outcomes reporting process. Pendal examines whether an issuer's eligibility criteria are aligned with the Green Bond Principles, the Climate Bonds Initiative, Social Bond Principles, or another relevant standard that provides a framework for determining eligibility of projects and reporting requirements.

### 3 Independent review

Pendal focuses on the advice of independent verification or certification prior to issuance, and third-party auditing or review to confirm ongoing compliance. These include certification from the Climate Bonds Initiative, Social Bond Initiative or assessments including those by ESG data providers. Supranational and government issuers can use a different part of their organisation for the review process.

### 4 Outcomes reporting

Green, Social and Sustainable Bonds must be undertaking projects that have positive environmental and/or social outcomes. Pendal is focused on quantifiable environmental and/or social outcomes for these bonds, and that the issuer provides an outcomes report annually.

## Exclusions

Exclusions	Definition including activity <sup>2</sup>	Gross Revenue Threshold
Controversial Weapons	Companies that manufacture controversial weapons including chemical and biological weapons, cluster munitions, antipersonnel landmines, depleted uranium ammunition, non-detectable fragments, incendiary weapons and blinding lasers.	0%
Nuclear Weapons	Companies involved in the production and/or storage of fissile materials used in/for nuclear weapons.	0%
	Companies that manufacture nuclear warheads and/or whole nuclear missiles.	0%
	Companies that produce uranium for nuclear weapons.	0%
Conventional Weapons / Firearms	Companies that derive revenue from the manufacture of conventional weapons.	0%
Tobacco	Tobacco Producer: Companies that manufacture tobacco products, such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco. This also includes companies that grow or process raw tobacco leaves.	0%
Gambling	Gambling operations: Companies that own or operate gambling facilities or other betting establishments, online gambling or mobile gambling.	0%
Pornography	Adult entertainment Producer: Companies that produce adult entertainment materials that fall into the following categories: Producer of X-rated films, Producer of sexually explicit video games, books or magazines with adult content, Live entertainment of an adult nature or Producer of adults-only material on the internet.	0%
Alcohol	Companies that manufacture alcoholic products including brewers, distillers, and vintners.	0%
Predatory Lending	Companies involved in controversial lending practices defined as those in which lenders take advantage of borrowers' lack of understanding and/or lack of access to more traditional financial services to impose loan terms that place a disproportionately and often untenably high burden on the borrower. This is often done through deception, fraud, or manipulation via aggressive sales tactics.	0%
Thermal Coal	Companies that derive revenues from thermal coal mining, extraction, production, refining or processing.	0%
Unconventional Oil/Gas	Companies that derive revenues from unconventional oil and gas production. It includes revenues from oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas and coal bed methane.	0%
Conventional Oil/Gas	Companies that derive revenues from conventional oil and gas production.	0%
Fossil Fuel Utilities	Companies that derive revenue from thermal coal-based power generation.	0%

<sup>2</sup> An exemption applies to some fixed income investments 'use of proceeds' securities such as green, social, and sustainability bonds issued by companies, that may have otherwise been screened out, to fund projects with dedicated environmental and/or social benefits. An exemption also applies to government, government related and supranationals. Exemptions do not apply to sustainability-linked bonds.

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## Other ESG considerations

'Green bonds' are any type of bond where the proceeds (or an equivalent amount) are exclusively applied to finance or re-finance, in part or in full, projects or activities with dedicated environmental benefits (green projects).

'Social bonds' are any type of bond where the proceeds (or an equivalent amount) are exclusively applied to finance or re-finance, in part or in full, projects or activities that achieve positive social outcomes and/or address a social issue (social projects).

'Sustainable bonds' include:

- Sustainability bonds which are any type of bond where the proceeds (or an equivalent amount) are exclusively applied to finance or re-finance, in part or in full, a combination of green and social projects or activities
- Sustainability-linked bonds which are any type of bond linked to the issuer achieving predefined sustainability and/or ESG objectives within a specified timeline
- Bonds from issuers which have been assessed against Pandal's exclusionary screens and sustainability assessment.

Pandal's sustainable assessment process considers the extent to which an issuer exhibits appropriate strategic recognition, board oversight, policies and systems to manage the issuer's material environmental, social, and corporate governance (ESG) issues. Specifically, the assessment may consider issues such as:

### Environmental management

- Management of environmental impacts through the implementation of best practice environmental techniques, technologies and product design
- Environmental performance against a range of environmental indicators including, for example, greenhouse gas emissions, energy and water use and environmental incidents
- The capacity to consult key stakeholders in relation to activities that may have significant environmental impacts
- Adoption of best practice with regards to management and disclosure of material risks and opportunities associated with climate change.

### Social practices

- Equal opportunity, anti-discrimination and industrial relations policies and practices
- Staff incentives, development and training
- Employee benefits and entitlements
- Human capital management performance against a range of indicators, such as voluntary turnover and gender diversity in senior management
- Products or services that provide positive social impacts such as improved health & community well-being, disease prevention, and education
- Management of contractors and suppliers
- Workplace health and safety performance against indicators such as fatalities and lost time injury frequency rate.

### Corporate governance and business conduct

- Codes of conduct and the extent of their integration into the issuer's operations
- Provision of regular and appropriate training
- Whistleblower policies and procedures
- Ethical conduct and performance of employees and officers – the extent to which issuers are adopting principles in areas such as complying with the law, fair and open dealings and accepting responsibility for their actions
- Product safety and consumer protection
- Engagement practices with employees, shareholders, and key community stakeholders.

All reasonable care has been taken by Pandal to implement the fund's exclusionary screens. Pandal draws on internal and supplementary external research, believed to be accurate, to determine whether an issuer is subject to the exclusionary screens. However, as the nature and conduct of businesses may change over time, and publicly available financial or other information is not always comprehensive or up to date, Pandal cannot guarantee that the fund will meet all these criteria at all times.

Pandal reviews issuers subject to the exclusionary screens monthly, and monitor the fund's compliance with its investment guidelines (including with the exclusionary screens) daily. If Pandal discovers an investment no longer meets their criteria, Pandal will divest the holding as soon as they consider appropriate (which will be on a case by case basis), having regard to the interests of investors.





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The investable universe consists of issuers satisfying Pandal's sustainable and ethical assessment process. Issuers with higher sustainable, ethical and financial ratings will typically be favoured to those issuers with lower scores. Lower ranked issuers will generally be excluded from the fund's investable universe. The criteria applied to the fund's investments may exclude some issuers from the investable universe of the portfolio.

For this reason the fund's performance may vary when compared to other investment funds that are able to invest in these issuers. This risk should be considered when deciding whether to invest in the fund.

# Pendal Sustainable Australian Share

## Fund overview

Objective	The fund aims to provide a return (before fees, costs and taxes) that exceeds the S&P/ASX 200 Total Return Index over rolling three-year periods, whilst maximising the portfolio's focus on sustainability.
Minimum suggested timeframe	At least 7 years
Risk	 Low Medium High
Allocation	 <div> <p><b>Target</b> 100.0%</p> <p><b>(Range)</b> (90–100%)</p> <p>0.0% (0–10%)</p> <p>  Australian shares   Cash           </p> </div>
Strategy	<p>This fund is designed for investors who want the potential for long-term capital growth and tax effective income, diversification across a broad range of Australian companies and industries and are prepared to accept higher variability of returns. The fund uses an active stock selection process that combines Pendal's sustainable and ethical criteria with financial analysis. Pendal actively seeks out companies and industries that demonstrate Environmental, Social and Corporate Governance (ESG) and ethical practices.</p> <p>The fund aims to invest in companies that advance the transition to a more sustainable economy. Pendal's view of a sustainable economy is one which is made up of companies:</p> <ul style="list-style-type: none"> <li>• producing or offering products or services that provide social and/or environmental benefits; and/or</li> <li>• that have leading operational practices with regard to the environment, their employees and community, and conduct their business ethically; and/or</li> <li>• whose actions, business models and products or services do not cause significant harm.</li> </ul> <p>In managing the fund, Pendal focuses on sustainable themes (including energy transformation, sustainable environment, human basics and increasing prosperity), and draws on internal and external research to assess companies on their sustainability performance. In addition to employing a sustainability assessment framework, exclusionary screens are applied to avoid exposure to companies with business activities that Pendal considers to negatively impact the environment and/or society.</p> <p>The fund will not invest in companies directly involved in any of the following activities, where such activities account for 5% or more gross revenue: fossil fuel-based power generation, fossil fuel refinement or distribution (coal, oil and gas)<sup>1</sup>. The fund will also not invest in companies directly involved in any of the following activities where such activities account for 10% or more gross revenue: provision of supplies or services which relate specifically to fossil fuel extraction or exploration (coal, oil and gas)<sup>1</sup>, directly mining uranium for the purpose of nuclear power generation, unsustainable forestry or forest products, including non-Forest Stewardship Council certified forest products or non-Roundtable on Sustainable Palm Oil certified palm oil production, indirect provision of gambling, distribution or retailing of pornography, distribution or retailing of non-controversial weapons or armaments; or supply of goods or services specifically related to non-controversial weapons or armaments, distribution or retailing of alcoholic beverages and distribution of tobacco (including e-cigarettes and inhalers) or supply of goods or services specifically related to the tobacco industry.</p> <p>The fund may hold cash and may use derivatives. Exclusionary screens are not applied to cash or derivatives. The use of derivatives may result in the portfolio having indirect exposure to excluded companies from time to time.</p>

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Pendal actively engages with the management of the companies they invest in to manage risk, effect change and realise potential value over the long term. Pendal's engagement strategy and priorities for individual companies is also guided by Pendal's Sustainability Assessment Framework to identify opportunities to enhance the sustainability of their products or services, or operational practices.

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## Investment process

The fund aims to positively tilt the portfolio towards companies with business activities that Pendal considers have the ability to provide social and/or environmental benefit (Sustainable Industries), while avoiding exposure to industries or companies involved in business activities that have the potential to cause social and/or environmental harm. It aims to achieve this by having its allocation to stocks in Sustainable Industries exceeds those stocks' respective benchmark weights in the ASX 200.

Pendal uses an active stock selection process that takes ESG and ethical considerations into account (including the use of exclusionary screens and Pendal's sustainability framework) in addition to its financial analysis when selecting, retaining or realising investments within the portfolio. Exclusionary screens are applied to companies involved in business activities which, according to Pendal, have the potential to cause social and/or environmental harm. Pendal employs a sustainability assessment framework when selecting underlying securities for the portfolio.

Exclusionary screens – see 'Exclusions' section below.

Sustainability Assessment Framework – see 'Inclusions' section below.

## Inclusions

### Sustainability assessment framework

Following the application of the exclusionary screens, Pendal applies the sustainability assessment framework to select the underlying securities for the portfolio. Pendal's sustainability assessment framework considers a company's characteristics, including:

- the extent to which its products or services are beneficial to the environment and/or society
- operational practices which are sustainable towards the environment and society; and
- its management of its environmental, social and governance (ESG) risks and opportunities.

Companies are assessed into one of four categories:

### 1 Sustainable Products and Services

This category includes:

- Companies producing or offering goods and services that are beneficial to the environment and/or society and
- Companies whose sustainable products are affecting positive change to the environment and/or society.

### 2 Sustainable Leaders

This category includes:

- Companies engaging in activities or product improvements with outcomes that are beneficial to the environment and/or society and
- Companies with corporate strategies to affect positive change to the environment and/or society.

### 3 Sustainable Improvement

This category includes:

- Companies with scope to progress their sustainable performance towards 'Sustainable Leaders' and
- Companies with opportunity to continue improvement of ESG practices and activities.

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## 4 Monitor and Repair

This category includes:

- Companies that are addressing poor sustainable practices or elevated ESG risks and
- Companies where Pandal will seek to influence the repair of company practices through active engagement.

The fund focuses on investing in companies with business activities that Pandal considers have the ability to provide social and/or environmental benefit categorised by Pandal as 'Sustainable Products and Services' and 'Sustainable Leaders'. The fund also aims to having its allocation to stocks in 'Sustainable Products and Services' exceeding those stocks' respective benchmark weights in the S&P/ASX 200 Index, as these companies have a key role in advancing the transition to a more sustainable economy.

Pandal considers companies in 'Sustainable Improvement' to be producing or offering products and services that do not cause significant harm to the environment and/or society, and companies with operational practices and conduct that are neutral towards the environment and society, that Pandal believes have potential to improve their operational practices or conduct and/or enhance the sustainability of their products or services. Companies that have been previously excluded under 'Breaches and Misconduct' exclusionary screens due to their past conduct, but that are taking the necessary steps, in Pandal's view, to change their business practices whilst continuing to actively engage with Pandal, are categorised by us as 'Monitor and Repair'.

Pandal's sustainability assessment for the fund may consider issues including but not limited to:

### Business conduct

- business ethics and conduct
- compliance with the law and other standards

### Social and labour issues

- equal opportunity, anti-discrimination and industrial relations policies and practices;
- human capital management performance, including the company's ability to attract and retain talent and to prepare a future-ready workforce;
- employee benefits and entitlements, such as those supporting employee engagement, diversity and inclusion;
- fair management of contractors, franchisees and suppliers, including oversight of supply chain and human rights risks;

- provision of regular and appropriate training, including on whistleblower policies and procedures; workplace health and safety performance, including instances of fatalities and serious incidents as well as promotion of wellbeing;
- products or services that provide positive social impacts such as improved health and community wellbeing, disease prevention, and education

### Environmental issues

- products or services that provide positive environmental impacts such as renewable energy generation, water use efficiency and sustainable agriculture;
- management of environmental impacts through the implementation of best practice environmental techniques, technologies and product design; and
- environmental performance against a range of indicators including, for example, greenhouse gas emissions, energy and water use and environmental incidents.

Pandal continuously monitors the sustainability characteristics of the option's investments. As a company's products, services, operational practices, or management of ESG risks and opportunities evolve, it may be re-categorised within our Sustainability Assessment Framework, as determined by Pandal. If an investment no longer meets the minimum criteria of this framework (categorised as 'Monitor and Repair'), Pandal will divest the holding as soon as it considers appropriate (usually be sold within three months), having regard to the interests of investors (and this will be on a case by case basis).

The sustainability criteria and exclusionary screens applied to the fund's investments may exclude some companies from the investable pool of the fund's portfolio. For this reason, the fund's performance may vary when compared to other funds that are able to invest in these companies. This risk should be considered when deciding whether to invest in the fund.



## Exclusions

Exclusions	Definition including activity	Gross Revenue Threshold
Fossil Fuels – Coal	Directly extract or explore for fossil fuels (specifically, coal) or	0%
	Derive revenue from fossil fuel-based power generation, or from fossil fuel refinement or distribution (coal) <sup>1</sup> or	5%
	Derive revenue from the provision of supplies or services which relate specifically to fossil fuel extraction or exploration (coal) <sup>1</sup>	10%
Fossil Fuel - Oil and Gas	Directly extract or explore for fossil fuels (specifically, oil and gas) or	0%
	Derive revenue from fossil fuel-based power generation, or from fossil fuel refinement or distribution (oil and gas) <sup>1</sup> or	5%
	Derive revenue from the provision of supplies or services which relate specifically to fossil fuel extraction or exploration (oil and gas) <sup>1</sup>	10%
Uranium	Derive revenue from directly mining uranium for the purpose of nuclear power generation	10%
Logging	Derive revenue from unsustainable forestry or forest products, including non-Forest Stewardship Council certified forest products or non-Roundtable on Sustainable Palm Oil certified palm oil production	10%
Gambling	Directly manufacture, own or operate gambling facilities, gaming services or other forms of wagering or	0%
	Derive revenue from the indirect provision of gambling (for example, through telecommunications platforms)	10%
Pornography	Produce pornography or	0%
	Derive revenue from the distribution or retailing of pornography	10%
Weapons	Manufacture or distribute controversial weapons (including cluster munitions, landmines, biological or chemical weapons, nuclear weapons, incendiary weapons and white phosphorous weapons); or supply of goods or services specifically related to controversial weapons or	0%
	Manufacture of non-controversial weapons or armaments (including civilian firearms or military equipment) or	0%
	Derive revenue from the distribution or retailing of non-controversial weapons or armaments (including civilian firearms or military equipment); or supply of goods or services specifically related to non-controversial weapons or armaments.	10%
Alcohol	Produce alcoholic beverages or	0%
	Derive revenue from the distribution or retailing of alcoholic beverages	10%
Tobacco	Produce tobacco (including e-cigarettes and inhalers) or	0%
	Derive revenue from the distribution of tobacco (including e-cigarettes and inhalers) or supply of goods or services specifically related to the tobacco industry (for example, packaging or promotion)	10%

<sup>1</sup> Companies with a climate transition plan may be exempted from this exclusion, provided that they have in place a Paris Agreement aligned transition plan and produce climate-related financial disclosures annually, which in both cases the Manager considers credible.

Exclusions	Definition including activity	Gross Revenue Threshold
Animal cruelty	Directly undertake animal testing for cosmetic products or	0%
	Directly undertake live animal export	0%
Predatory lending practices	Directly provide products or services with lending practices that are unfair or deceptive to ordinary borrowers, including small amount short term loans at higher than commercial rates of interest (for example, payday loans, pawn loans or the use of aggressive sales tactics).	0%
Breaches/Misconduct	The Manager considers to have been found to have significant breaches of social or environmental norms or regulations or are subject to serious and substantiated allegations of unethical conduct, which the Manager considers have not been remedied or adequately addressed.	0%

## Other ESG considerations

All reasonable care has been taken to implement the exclusionary screens to meet the criteria described above. Pendal draws on internal and supplementary external research, believed to be accurate, to determine whether a company is subject to the exclusionary screens.

Pendal reviews companies subject to the exclusionary screens monthly, and monitor the portfolio's compliance with its investment guidelines (including the exclusionary screens) daily. If Pendal discovers an investment no longer meets its criteria, Pendal will divest the holding as soon as Pendal considers appropriate (usually be sold within three months), having regard to the interests of investors (and this will be on a case by case basis). However, as the nature and conduct of businesses may change over time, and publicly available financial or other information is not always comprehensive or up to date, Pendal does not guarantee that the investment fund will meet all of these criteria at all times.

The sustainability criteria and exclusionary screens applied to the fund's investments may exclude some companies from the investable pool of the portfolio. For this reason the fund's performance may vary when compared to other investment funds that are able to invest in these companies. This risk should be considered when deciding whether to invest in the fund.

# Pendal Sustainable Balanced

## Fund overview

Objective	The fund aims to provide a return (before fees and expenses) that exceeds the fund's composite benchmark over rolling three-year periods.
Minimum suggested timeframe	At least 5 years
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<sup>1</sup> As defined by the Fund's exclusionary screens and gross revenue thresholds.

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### Australian Shares

The Australian shares component will not invest in companies directly involved in:

- direct exploration or extraction fossil fuels (specifically, coal, oil and gas) or
- direct manufacture, own or operate gambling facilities, gaming services or other forms of wagering or
- produce pornography or
- manufacture of non-controversial weapons or armaments (including civilian firearms or military equipment) or
- produce alcoholic beverages or
- directly undertake animal testing for cosmetic products or live animal export or
- directly provide products or services with lending practices that are unfair or deceptive or
- Pandal considers to have been found to have significant breaches of social or environmental norms or regulations, or are subject to serious and substantiated allegations or unethical conduct, which Pandal considers have not been remedied or adequately addressed.

The Australian shares component will not invest in companies involved in any of the following activities, where such activities account for 5% or more gross revenue:

- fossil fuel-based power generation, or from fossil fuel refinement or distribution (coal, oil and gas)<sup>2</sup>.

The Australian shares component will also not invest in companies involved in any of the following activities, where such activities account for 10% or more gross revenue:

- provision of supplies or services which relate specifically to fossil fuel extraction or exploration (coal, oil and gas)<sup>2</sup> or
- directly mining uranium for the purpose of nuclear power generation or
- unsustainable forestry or forest products, including non-Forest Stewardship Council certified forest products or non-Roundtable on Sustainable Palm Oil certified palm oil production or
- indirect provision of gambling or
- distribution or retailing of pornography or
- distribution or retailing of non-controversial weapons or armaments (including civilian firearms or military equipment) or supply of goods or services specifically related to non-controversial weapons or armaments or
- distribution or retaining or alcoholic beverages or
- distribution of tobacco (including e-cigarettes and inhalers) or supply of goods or services specially related to tobacco industry.

### International shares

The international shares component will not invest in companies directly involved in the following activities:

- extract or explore for fossil fuels (specifically, coal, oil and natural gas)

The international shares component will not invest in companies directly involved in any of the following activities, where such activities account for 10% or more of their gross revenue directly:

- provision of supplies or services which relate specifically to fossil fuel extraction or exploration (coal, oil and gas) or <sup>2</sup>
- directly mining uranium for the purpose of nuclear power generation or
- extraction of oil
- production of alcoholic beverages
- manufacture, ownership or operation of gambling facilities, gaming services or other forms of wagering
- manufacture of non-controversial weapons or armaments
- manufacture or distribution of pornography or
- uranium mining for the purpose of nuclear power generation

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**Australian fixed interest**

The Australian fixed interest component will not invest in issuers directly involved in the manufacture of alcohol, ownership or operation of gaming facilities, production of pornography and predatory lending; or that derive revenues from thermal coal, unconventional oil/gas or conventional oil/gas or fossil fuel utilities.

**Alternatives**

The alternative component will not invest in companies or issuers directly involved in any of the following activities, where such activities account for 10% or more of a company or issuer's gross revenue directly involved in the production or alcoholic beverages, manufacture, ownership or operation of gambling facilities, gaming services or other forms of wagering, manufacture of non-controversial weapons or armaments, manufacture or distribution of pornography<sup>2</sup>, direct mining of uranium for the purpose of nuclear power generation, or extraction of thermal coal and oil sands production.

Pendal actively engages with the management of the companies and issuers they invest in to manage risk, effect change and realise potential value over the long term.

The fund may hedge a portion of its currency exposure. The fund may use derivatives to achieve its investment objective and to gain exposure to assets and markets. Derivatives may also be used to reduce risk and can act as a hedge against adverse movements in a particular market and/or in the underlying assets.

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<sup>2</sup> Companies with a climate transition plan may be exempted from this exclusion, provided that they have in place a Paris Agreement aligned transition plan and produce climate-related financial disclosures annually, which in both cases the Manager considers credible.

## Investment process

ESG factors are integrated in the fund's asset allocation process where ESG is one of the secular themes incorporated by Pandal in the fund's strategic asset allocation process. In managing the fund's Australian and international shares, Australian and international fixed interest and alternative investments components, exclusionary screens are applied to manage the fund's exposure to companies and issuers with activities that Pandal considers to negatively impact the environment or society.

In addition to exclusionary screens, Pandal draws on internal and external research which assesses companies and issuers on their sustainability performance (managing exposure to ESG risks and opportunities). Sustainability performance is an ESG factor integrated into our investment process.

## Exclusions

Pandal has exclusionary screens for Australian Shares, International Shares, Alternative Investments and Australian Fixed Interest asset classes. Refer to Pandal Sustainable Australian Shares Fund above for exclusionary screens for Australian Shares. All other exclusionary screens are shown below.

### Australian Shares

Exclusions	Definition including activity	Gross Revenue Threshold
Fossil Fuels – Coal	Directly extract or explore for fossil fuels (specifically, coal)	0%
	Derive revenue from fossil fuel-based power generation, or from fossil fuel refinement or distribution (coal) <sup>1</sup>	5%
	Derive revenue from the provision of supplies or services which relate specifically to fossil fuel extraction or exploration (coal) <sup>1</sup>	10%
Fossil Fuel – Oil and Gas	Directly extract or explore for fossil fuels (specifically, oil and gas)	0%
	Derive revenue from fossil fuel-based power generation, or from fossil fuel refinement or distribution (oil and gas) <sup>1</sup>	5%
	Derive revenue from the provision of supplies or services which relate specifically to fossil fuel extraction or exploration (oil and gas) <sup>1</sup>	10%
Uranium	Derive revenue from directly mining uranium for the purpose of nuclear power generation	10%
Logging	Derive revenue from unsustainable forestry or forest products, including non-Forest Stewardship Council certified forest products or non-Roundtable on Sustainable Palm Oil certified palm oil production	10%
Gambling	Directly manufacture, own or operate gambling facilities, gaming services or other forms of wagering	0%
	Derive revenue from the indirect provision of gambling (for example, through telecommunications platforms)	10%
Pornography	Produce pornography	0%
	Derive revenue from the distribution or retailing of pornography	10%

Exclusions	Definition including activity	Gross Revenue Threshold
Weapons	Manufacture or distribute controversial weapons (including cluster munitions, landmines, biological or chemical weapons, nuclear weapons, incendiary weapons and white phosphorous weapons); or supply of goods or services specifically related to controversial weapons	0%
	Manufacture of non-controversial weapons or armaments (including civilian firearms or military equipment)	0%
Weapons (Continued)	Derive revenue from the distribution or retailing of non-controversial weapons or armaments (including civilian firearms or military equipment); or supply of goods or services specifically related to non-controversial weapons or armaments	10%
Alcohol	Produce alcoholic beverages	0%
	Derive revenue from the distribution or retailing of alcoholic beverages	10%
Tobacco	Produce tobacco (including e-cigarettes and inhalers)	0%
	Derive revenue from the distribution of tobacco (including e-cigarettes and inhalers) or supply of goods or services specifically related to the tobacco industry (for example, packaging or promotion)	10%
Animal cruelty	Directly undertake animal testing for cosmetic products	0%
	Directly undertake live animal export	
Predatory lending practices	Directly provide products or services with lending practices that are unfair or deceptive to ordinary borrowers, including small amount short term loans at higher than commercial rates of interest (for example, payday loans, pawn loans or the use of aggressive sales tactics)	0%
Breaches/ Misconduct	The Manager considers to have been found to have significant breaches of social or environmental norms or regulations, or are subject to serious and substantiated allegations of unethical conduct, which the Manager considers have not been remedied or adequately addressed.	0%

<sup>1</sup> Companies with a climate transition plan may be exempted from this exclusion, provided that they have in place a Paris Agreement aligned transition plan and produce climate-related financial disclosures annually, which in both cases the Manager considers credible.



## International Shares

Exclusions	Definition including activity	Gross Revenue Threshold
Tobacco	Produce tobacco (including e-cigarettes and inhalers)	0%
Controversial Weapons	Manufacture controversial weapons (including cluster munitions, landmines, biological or chemical weapons, nuclear weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, non-detectable fragments and white phosphorous weapons)	0%
Fossil fuels (coal, oil and natural gas)	Extract or explore for fossil fuels (specifically, coal, oil and natural gas)	0%
	Derive revenue from fossil fuel-based power generation, or fossil fuel distribution or refinement	10%
Gambling	Manufacture, ownership or operation of gambling facilities, gaming services or other forms of wagering	10%
Non-Controversial Weapons	Manufacture of non-controversial weapons or armaments	10%
Pornography	Manufacture or distribution of pornography	10%
Alcohol	Production of alcoholic beverages	10%
Uranium	Derive revenue from directly mining of uranium for the purpose of nuclear power generation	10%

## Alternative Investments

Exclusions	Definition including activity	Gross Revenue Threshold
Tobacco	Produce tobacco (including e-cigarettes and inhalers)	0%
Controversial Weapons	Controversial weapons manufacture (including cluster munitions, landmines, biological or chemical weapons, nuclear weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments)	0%
Alcohol	Production of alcoholic beverages	10%
Gambling	Manufacture, ownership or operation of gambling facilities, gaming services or other forms of wagering	10%
Non- Controversial Weapons	Manufacture of non-controversial weapons or armaments	10%
Pornography	Manufacture or distribution of pornography	10%
Uranium	Direct mining of uranium for the purpose of nuclear power generation	10%

## Australian Fixed Interest

Exclusions	Definition including activity	Gross Revenue Threshold
Controversial weapons	Companies that manufacture controversial weapons including chemical and biological weapons, cluster munitions, antipersonnel landmines, depleted uranium ammunition, non-detectable fragments, incendiary weapons and blinding lasers.	0%
Nuclear weapons	Companies involved in the production and/or storage of fissile materials used in/for nuclear weapons.	0%
	Companies that manufacture nuclear warheads and/or whole nuclear missiles.	0%
	Companies that produce uranium for nuclear weapons.	0%
Conventional Weapons / Firearms	Companies that derive revenue from the manufacture of conventional weapons.	0%
Tobacco	Tobacco Producer: Companies that manufacture tobacco products, such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco. This also includes companies that grow or process raw tobacco leaves.	0%
Gambling	Gambling Operations: Companies that own or operate gambling facilities or other betting establishments, online gambling or mobile gambling.	0%
Pornography	Adult entertainment Producer: Companies that produce adult entertainment materials that fall into the following categories: Producer of X-rated films, Producer of sexually explicit video games, books or magazines with adult content, Live entertainment of an adult nature or Producer of adults-only material on the internet.	0%
Thermal Coal	Companies that derive revenues from thermal coal mining, extraction, production, refining or processing.	0%
Unconventional Oil/Gas	Companies that derive revenues from unconventional oil and gas production. It includes revenues from oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas and coal bed methane.	0%
Conventional Oil/Gas	Companies that derive revenues from conventional oil and gas production.	0%
Fossil Fuel Utilities	Companies that derive revenue from thermal coal-based power generation.	0%

## Other ESG considerations

Pendal reviews investments subject to the exclusionary screens monthly (alternatives are reviewed quarterly) and monitors the fund's compliance with its investment guidelines (including the exclusionary screens) daily. If Pendal discovers an investment no longer meets our criteria, Pendal will divest the holding (usually sold within six months), having regard to the interests of investors.

The sustainability criteria and exclusionary screens applied to the fund's investments may exclude some industry sectors, companies or issuers from the fund's investable universe. For this reason, the fund's performance may vary when compared to other investment funds that do not apply sustainable or ethical criteria in their investment process. This risk should be considered when deciding whether to invest in the fund.

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### Responsible Entity

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### Enquiries

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