# Fact sheet: Our approach to sustainable investing

MAY 2025

Alphinity has two sustainable strategies, both of which are available to investors through our funds, or as customised mandates. These funds are the **Australian Alphinity Sustainable Share Fund** and the **Alphinity Global Sustainable Equity Fund**.

Our sustainable funds aim to invest in companies that we believe have a net positive alignment with the United Nations Sustainable Development Goals (SDGs), exceed our minimum ESG criteria, and which are also identified as undervalued and within an earnings upgrade cycle. The SDGs aim to tackle disadvantage and the most pressing environmental and social challenges. These include, amongst others, a focus on poverty and inequality, health, sustainable production and consumption, biodiversity, water, waste, and climate change. We believe that companies can play a role to innovate, scale and deliver these solutions.

## Features of our sustainable funds

| Sustainability |
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| An investable universe of companies that we believe have a net positive alignment with one or more of the 17 United Nations Sustainable Development Goals (SDGs) and exceed Alphinity's minimum ESG criteria. |

| Exclusions |
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| Exclusions from the investable universe, defined by the Fund Charter, for activities that we consider to be incongruent with the SDGs. |

| Sustainable Compliance Committee |
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| Oversight and governance by a Sustainable Compliance Committee, which includes two external experts, to ensure compliance with the fund's charter and approve the investable universe. |

| Stewardship |
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| Active ownership including company engagement, proxy voting and thematic research. |

| Investment process |
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| An established team with a disciplined process that finds high-quality businesses with strong earnings that are under appreciated by the market. |

Each strategy has a Fund Charter in place which outlines the investment parameters of the fund, including a set of excluded activities and revenue thresholds. Both strategies have a Sustainable Compliance Committee in place to oversee governance, sustainable universe construction, and help inform company engagement. The committees include two external highly reputable independent experts and ensure the Funds stay true to their Charters.

Ultimately, stock selection for inclusion in the portfolio is made from the defined sustainable universe by the investment team applying the Alphinity investment process.

## Defining sustainability using the Sustainable Development Goals

We use the SDGs as a framework to identify sustainable companies and determine our sustainable investible universe for these strategies. The 17 goals have a universal application and aim to mobilise efforts to end all forms of poverty, improve health and education, reduce inequality, and spur innovation and economic growth, while managing climate change and encouraging preservation of our oceans and forests.

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

- They are **globally recognised** and supported by governments, industry bodies, companies, and communities all around the world
- They cover **environmental and social themes**, with a focus on equality and reducing the potential impacts of climate change
- The framework includes a clear set of goals with **169 individual targets** to help assess a company's activities
- They can be **easily interpreted** to apply to activities, products, and services of listed equities.

We will continue to monitor any new regulatory standards that define 'sustainable' activities, such as the EU Taxonomy and the International Sustainability Standards Board. Although these remain in their infancy, we are aware that global sustainability standards are evolving and, where appropriate, will aim to integrate any relevant new developments into our sustainability considerations.

Further information on our stewardship practices is outlined in our Stewardship Policy.

## Methodology

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

### 1. Excluded activities

There are a number of activities we have determined to be incongruent with the SDGs, such as fossil fuel production, fossil fuel energy generation, alcohol and tobacco production and gambling. Companies exposed to these activities are subject to various materiality thresholds and, are excluded during universe construction. A full list can be viewed in the Funds' Charters **here**.

For activities that have an indirect link to any excluded activities, such as fossil fuel transport or alcohol sales, a specialised research framework guides the judgement of a company's suitability for the fund. For a company to be approved it must meet all inclusion requirements of the framework, as determined by the Sustainable Compliance Committee.

### 2. SDG analysis

Alignment to the SDGs is measured using an in-house methodology which quantitatively aligns company revenues with relevant SDGs to arrive at a net score for each company. The net score includes the positive and negative alignment to the relevant SDGs for each segment of company revenues.

We align company revenues to the 169 targets that underpin the 17 SDGs as this provides greater insight and clarity to the intent of the goals, and therefore requires less interpretation. To reflect the strength of each segment's alignment with the various goals, we apply a materiality factor to the respective revenue stream.

Our SDG analysis is completed using company disclosures (financial and ESG documents), insights gained through company engagement and independent research. To maintain consistency in this analysis we have developed sector assumptions to guide the SDG alignment process. Judgement is applied on a case-by-case basis because each company is unique and alignment in the same sector can vary.

This analysis is reviewed and approved by the Sustainable Compliance Committee for each company. The SDG data is also reviewed in aggregate by a nominated member of the committee twice a year to ensure consistency across the analysis and update any assumptions where necessary.

**Responsibility:** The SDG analysis is completed by the internal ESG and Sustainability team in consultation with the respective investment analyst. The relevant Sustainable Compliance Committee maintains oversight of the SDG analysis and approves companies for inclusion in the sustainable universes. Limited environmental assurance has been performed over the SDG Alignment Framework since 2022. KPMG's limited assurance is attached to our annual ESG and Sustainability Reports.

**Update and review:** Revenue data is updated at least annually, or when there is a material change (for example, as a result of mergers, acquisitions or divestment).

**Reporting:** The SDG alignment characteristics of each sustainable strategy, including company examples and case studies, are presented in our annual ESG and Sustainability Report. The positive and negative SDG alignment of all holdings in each reporting period are also disclosed as an appendix.

### 3. Minimum ESG criteria

A company's ESG criteria is assessed using an in-house methodology and process. Inputs for this process include third party ESG data provider research and ratings, company specific research, information gathered from company engagement, and other third-party reports.

This assessment is undertaken for any company actively being considered for investment, as well as on an ongoing basis for all stocks in the Fund. This assessment is made by the investment team, with support from internal ESG specialists.

The outcome of this assessment is an overall ESG risk level. Any stock that is assessed at the highest risk level of 'avoid' has not met Alphinity's minimum ESG criteria and consequently is not considered for inclusion in the Fund.

These are situations where overall ESG risks are viewed by Alphinity as material and having a high probability of significantly impacting company financial performance over the short to medium term. Such circumstances are commonly associated with exposure to a high-profile controversy, a historic pattern of controversies, or serious governance concerns. This is a qualitative judgement made by Alphinity after consideration of all material risks and opportunities using the ESG assessment framework, as well as the extent to which these risks have been adequately mitigated or controlled by management actions.

Further information on our ESG approach is outlined in our **ESG Policy** and **ESG Integration Fact sheet**.

### 4. Approval from the relevant Sustainable Compliance Committee

The two Sustainable Compliance Committees are responsible for overseeing the SDG and ESG company analysis, and approving the sustainable investment universes. Both committees include two Portfolio Managers and the same two external experts (see page 4).

Elaine Prior and Siobhan Toohill both have extensive expertise in ESG, sustainability and human rights. Along with their role to approve the sustainable universes, they also advise on company engagement priorities, industry trends, global policy changes, and key issues worthy of further research and explorations.

The committees are supported by the ESG team, which chair the committee meetings and provide research to assist discussions.

### 5. Construct a balanced Alphinity portfolio

Once companies have been approved by the respective Sustainable Compliance Committee for universe inclusion, we apply the same disciplined investment philosophy of all other Alphinity funds: looking for companies with earnings leadership. All companies in the portfolios will have a net positive SDG alignment and exceed our minimum ESG criteria.

**Worked example:** Shopify SDG alignment

**Positive alignment**

| Revenue | SDG alignment | Materiality | SDG score |
|---|---|---|---|
| SME Merchants (53%) | **SDG8.3:** Support of entrepreneurship and formalisation of SMEs | High (x100%) | 53% x 100% = 53% |
| Enterprise Merchants (47%) | **SDG8.2:** Enabling economic opportunity | Medium (x66%) | 47% x 66% = 31% |

**Positive score = +84%**

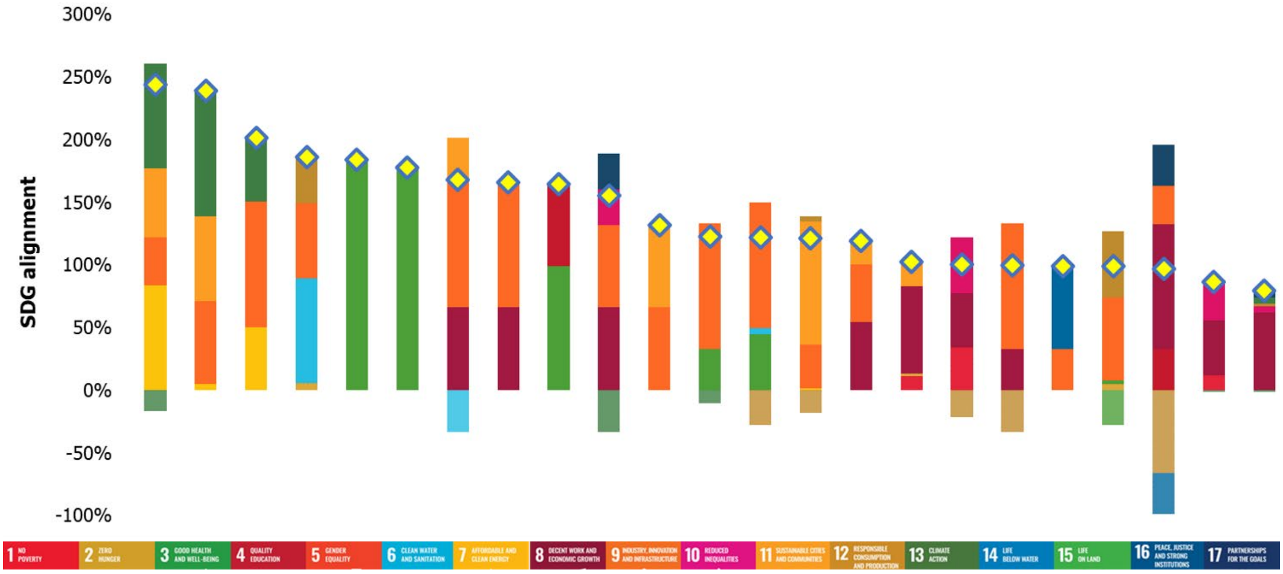
**Negative alignment**

| | | | |
|---|---|---|---|
| All products (100%) | **SDG12.5:** Waste generation and enabling consumption | Low (x33%) | -100% x 33% = -33% |

**Negative score = -33%**

**Net SDG score**
**84% - 33% = 51%**

**Example portfolio:** All portfolio companies have a net positive SDG score




Net SDG score

## Sustainable Compliance Committee

**Australian Sustainable Share Fund Compliance Committee**

**Global Sustainable Equity Fund Compliance Committee**

**Bruce Smith**
Principal, Portfolio Manager

**Elaine Prior**
ESG Expert

**Jeff Thomson**
Global Portfolio Manager

**Stephane Andre**
Principal, Portfolio Manager

**Siobhan Toohill**
Sustainability Expert

**Bruce Smith**
Principal, Portfolio Manager

**Supported by the ESG and Sustainability team**

The committees are supported by the ESG and sustainability team, which chair the committee meetings and provide research to assist discussions.

**Jessica Cairns**
Head of ESG & Sustainability

**Moana Nottage**
Senior ESG &
Sustainability Analyst

**Jasmine Singer**
ESG & Sustainability Associate

**Elaine Prior**, ESG Expert

Elaine retired in 2017 from Citi Research in Sydney where she was a Managing Director covering ESG and Sustainability research for Citi's fund manager and superannuation fund clients. An award-winning ESG pioneer, she researched sustainability issues on ASX listed companies to help clients assess valuation impacts or risks, or to engage with companies to encourage risk mitigation or broader positive change. With Elaine at the helm, Citi was awarded 'Best Broking Firm' title by ESG Research Australia every year for eight years between 2009 and 2016.

Elaine held roles in investment research and funds management for 20 years prior to joining Citi in 2007, primarily focused on the resources sector, and was the top-rated BHP analyst in the Australian market for several years.

Elaine has degrees in Chemistry, Petroleum Engineering and Antarctic Studies and, before working in financial markets, was an oil industry engineer in the UK North Sea and Australia. She also worked on environmental projects for Antarctic and Arctic tourism.

**Siobhan Toohill**, Sustainability Expert

Siobhan brings over 20 years' experience leading sustainability in ASX50 companies, including as Australia's first Chief Sustainability Officer in listed financial services. Her work spans climate action, net zero transition, natural capital, human rights, and social impact.

She advises business and government on climate, nature, anti-slavery, and gambling harm, and previously co-chaired the UN Environment Programme's Banking Board, co-authoring the UN Principles for Responsible Banking. She also served on the UN's Net Zero Banking Alliance.

With a background in architecture and as deputy chair of the Green Building Council of Australia, she helped pioneer green-rated, energy-efficient developments.

Siobhan was named in AFR's 2024 Women in Leadership Awards and received CEW's 2023 INSEAD scholarship.