Stewardship Report 2024

About the Stewardship Report

This report summarises our ethical stewardship activities for FY24, including where we are focusing our attention and resources today and for the year ahead.

Stewardship is an important part of our purpose and reason for being – it's integral to our Theory of Change as an ethical investor that we not only intentionally allocate capital to investments with net positive activities, but that we also leverage our position and our brand to agitate, influence and catalyse positive change for people, planet and animals.

We are strategic about our ethical stewardship, which means we choose to focus on thematic areas where we believe we can achieve real world change. Rather than thinking only of our own investments and portfolios, we take a systems approach, where we align our objectives and strategies to influence outcomes that matter to all.

You will see some statistics relating to our engagements on the following pages, but the primary focus of this report is to document our contribution to incremental progress towards our goals in the five strategic areas (displayed opposite). These areas address systemic risks that we believe in some cases threaten the very existence of our planet and its inhabitants, and with potential to disrupt the stability of the systems that underpin our global economy, economic performance and investor returns, such as climate change and nature loss.

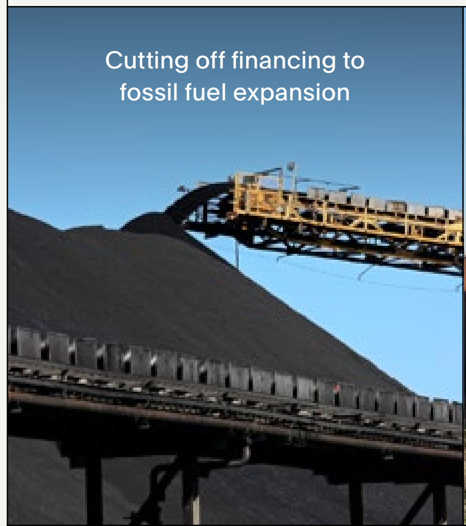
We acknowledge that pursuing real world change in this way makes us different to many of our peers[1] but we hold ourselves to a higher standard of stewardship. In doing so we are prioritising the long-term and absolute portfolio-level returns that are the real measures of success for investors and their beneficiaries.

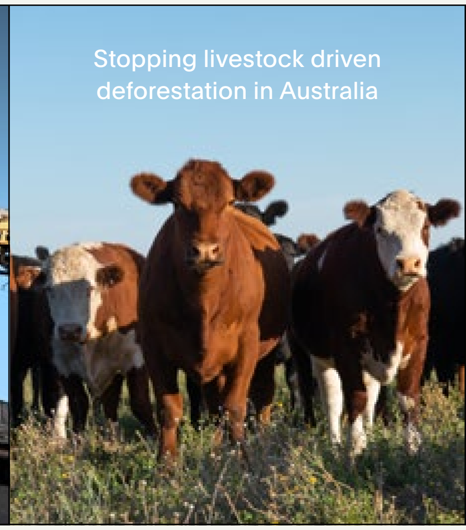
FY24 Snapshot

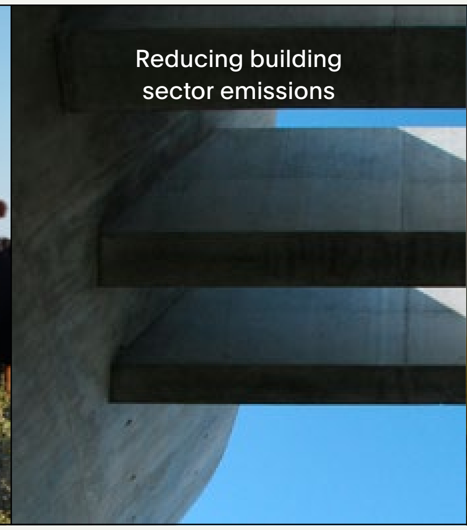
330+ engagements for people, planet and animals

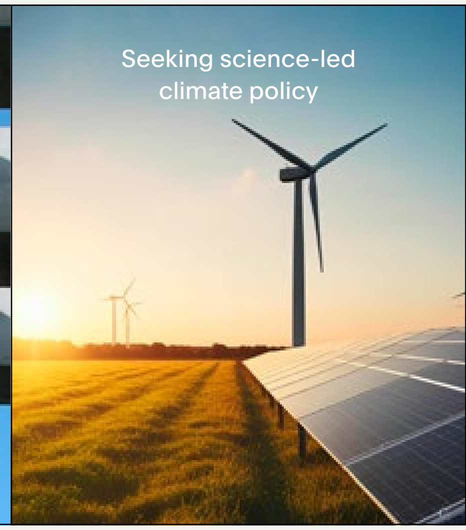
- More than 140 of these were 'proactive' engagements (that is we did more than simply 'sign on' to an engagement coordinated by another organisation)[3]
- Companies committed to change[#] following approximately 30% of our proactive engagements[3]
- Over 35 of our proactive engagements were 'in depth' engagements (involving 3+ activities in the FY, or had been part of a multi-year engagement)
- Companies committed to change[#] in FY24 following approximately 60% of our in depth, proactive engagements
- 2 company engagements ended with divestment.[4]

Our five strategic ethical stewardship initiatives:









1. In its latest report 'Current trends in stewardship practice', The RIAA cites desktop and primary survey research which finds that most investors engage based on financial materiality or their ability to influence rather pursing a strategic, systems level approach. P16 RIAA_Stewardship-Report_FINAL.pdf (responsibleinvestment.org)
2. We count one engagement where we engaged with a company on a topic or series of topics. There may be multiple activities within that engagement. For example, our engagement with Westpac is counted as one engagement which included meetings, emails and co-filing a shareholder resolution. We may count two engagements with a company if there were separate activities on entirely separate topics. For example, we had one engagement with CBA in relation to its fossil fuel exposure and a separate meeting with CBA to discuss its exposure to deforestation in Australia.
3. Our 'proactive' engagement count includes where we engaged directly with a company, government or other entity; we actively contributed to collective engagements (as distinct from simply 'signing on'); or we co-filed a resolution.
4. Investments exited during the year due to ethical re-assessment. Not including companies excluded from initial investment.

\# Commitments to change are commitments made by the engaged entity after our engagement commenced, that reflect progress towards the ultimate objectives of the engagement beyond acknowledgment of an issue. They may be identified through e.g. direct company responses, company reporting or actions taken, changes to government policies or draft legislation, or actions taken by industry associations. There are many other people and organisations working hard toward similar objectives.

KPMG have provided limited assurance over key metrics in our sustainability disclosures including this engagement statistic. KPMG's assurance opinion is available on page 178 of our 2024 Annual Report here: https://www.australianethical.com.au/shareholder/annual-reports/

Strategic Stewardship: what it means to us

We take a strategic approach to stewardship because we believe it's the best way to address systemic issues facing our planet and to achieve real-world progress.

Being strategic means selecting key thematic areas we want to align our stewardship objectives to, and then deploying our resources and efforts to seek incremental progress towards ambitious goals.

These are big issues, and we are not claiming that we can solve any of these issues on our own. However, we think we can leverage our position as an investor to positively influence, and we believe we have a responsibility to do so. Progress will take time, be incremental, and require us to mobilise our customer base, rally the investor ecosystem, and leverage our reputation to be a catalyst for the kind of change that is needed.

Adding a 5th strategic initiative

We introduce a new strategic stewardship initiative in this report – Science-led climate policy advocacy.

This new climate policy pillar reflects our view that ethical and financial goals cannot be fully realised unless dangerous climate change is prevented because of the systemic threat posed to the continuing good health of the planet and society on which investment returns depend.

We believe now is the time to push hard to maintain Australia's commitment to the Paris Agreement goals. We also acknowledge that the government is vital to our economy's transition to renewable energy, and that efforts to influence government policy will be more effective if coordinated. This is why this new strategic stewardship area will begin by focusing on creating support for an ambitious 2035 federal emissions reduction target.

Growing our voice

Passing $10 billion in funds under management in March was an important milestone for Australian Ethical, not just from a business and shareholder perspective, but for our purpose to invest for a better world, and our vision where money is a force for good.

Getting larger means growing in prominence and influence as an ethical investor, which can further aid our efforts to agitate for change.

We lead initiatives, as well as throw our support behind existing initiatives where it makes sense. For example, we are leading efforts on the climate policy and animal research front to encourage more voices to be raised for staying the course on science-based climate policy and moving toward non-animal research models respectively. We are also members of existing initiatives, including FAIRR (Farm Animal Investment Risk and Return Initiative), to build pressure on food companies to support the transition to more plant-based diets and to diversify their protein portfolios.

We continue to use all the tools at our disposal to influence real world change, from more formal mechanisms such as shareholder resolutions, voting on remuneration and company director elections, and Annual General Meeting (AGM) questions; to mobilising support through social media, our own superannuation members, mainstream and trade media, as well as through consistent formal and informal discussions with companies, other investors, and politicians.

Doing it differently

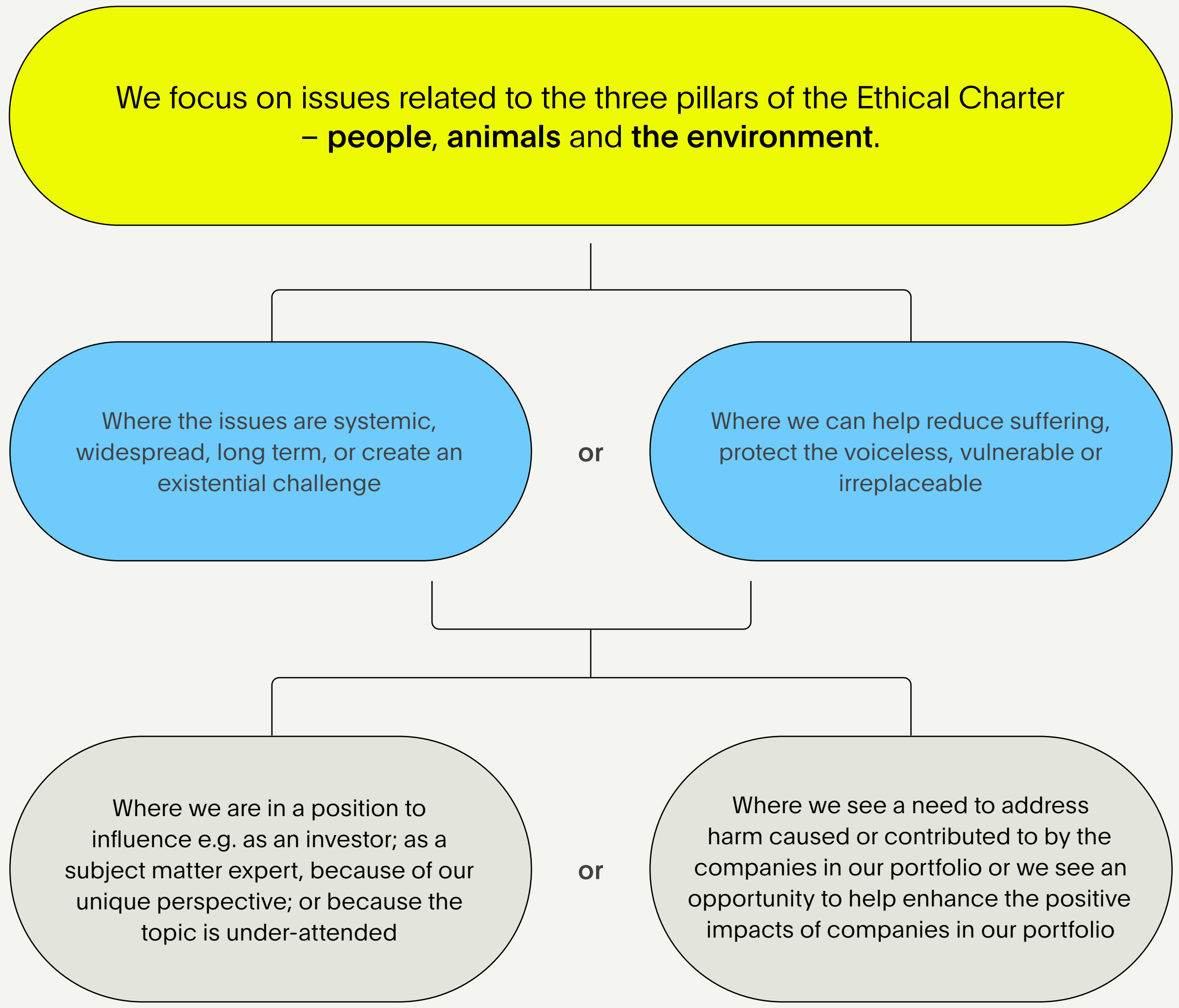
While we are seeing an increase in stewardship activity among responsible investors generally[5], we believe there needs to be a greater shift in focus to the system-level risks that impact portfolio returns, not just the financial performance of individual companies – which is where many funds are still focusing.

Many investors are engaging with companies for the purpose of improving individual company financial performance and risk management, rather than to address systemic risks like climate change. Applying this narrow financial materiality lens to stewardship risks not only failing to act on systemic risks but potentially exacerbating them, which in turn can negatively impact absolute portfolio-level returns.

In its Active Ownership 2.0 guide[6], the Principles of Responsible Investment defines a higher standard of stewardship. It recognises that investors need to shift the focus of their stewardship activities away from individual company financial performance and towards systemic issues. It's this style of stewardship we focus on in this report.

Our process for identifying our priority areas of focus

We have to be strategic about where we are investing our time and resources to influence change. We use the following framework to guide our strategic ethical stewardship initiatives:



5. Stewardship is increasing among Responsible Investing Leaders, according to RIAA's latest Benchmark report RIAA_benchmark_report_australia_2023_v09.pdf (responsibleinvestment.org)
6. Active Ownership 2.0 available at unpri.org/download?ac=9721

Cutting off financing to fossil fuel expansion

Why

We do not invest+ in companies whose main business is fossil fuels, and for over a decade we have leveraged our investment in the finance sector to seek to turn off sources of funding that enable unsustainable fossil fuel expansion to continue.

The International Energy Agency tells us that net zero by 2050 means the use of gas needs to decline this decade[7]. But Australian oil and gas companies continue to plan and invest in new oil and gas fields. There is a dangerous disconnect here.

We will only invest in banks and insurance companies that we assess to be aligning their lending, underwriting and investing with the Paris Agreement. Divestment is always on the table for banks and insurance companies that fail the test.

We leverage our investment in the sector to encourage companies to:

- Align their lending, underwriting and investing with the goals of the Paris Agreement
- Stop the financing and insuring of fossil fuel projects that are not aligned to the Paris Agreement
- Direct more funding to positive, clean and sustainable energy solutions

Our climate assessment considers bank lending to:

- The fossil fuel sector, including the type of fuel and its emissions intensity;
- Renewable energy and energy storage; and
- Technologies and activities which reduce energy usage or store carbon (e.g. green buildings, low-emissions transport and reforestation).

We also look at the way banks facilitate financing for companies outside of their traditional lending. That is, how a bank might facilitate companies raising capital, including through instruments such as green bonds.

When it comes to the insurance sector, we're looking at which projects these companies insure and how they align to the Paris Agreement, as well as how they are investing the insurance premiums they hold.

New fossil fuel projects and the companies that develop them require insurance, and they generally require lending, which often comes from banks. This means that banks and insurance companies have a lot of power in terms of enabling these projects, or making them less likely or more costly to proceed.

How

Our Theory of Change is: if we can convince major banks and insurance companies to stop lending to and underwriting non-Paris aligned fossil fuel projects, and the companies that develop them, it will:

- make those fossil fuel projects harder to finance, improving the relative return on investment of renewable energy, and
- help remove social license for these projects which in turn helps open the door for stronger government policies.

Over time we have seen financial institutions make commitments to align their lending, investing and underwriting activities to the Paris Agreement and to phase out coal. This year our ethical stewardship continued to focus on what we saw as the two major shortcomings of the banks' climate policies:

- giving high emission customers too much time to align their business with the transition to limit warming to 1.5 degrees, and
- not applying their climate-related restrictions to their general corporate lending facilities.

We leverage our tools of influence within this ecosystem to get us closer to our ultimate objective of ending unsustainable fossil fuel expansion. We meet with management and with boards at strategically opportune times and we also show up at AGMs and question the company publicly. We use governance mechanisms like shareholder resolutions to apply pressure to companies. We bring transparency to areas where we think it's needed, which includes producing summaries for investors analysing the approach banks are taking and highlighting gaps, and work with other investors to build pressure (see examples on following page). Divestment is always an option when an engagement has stalled, especially where we see divestment as having more influence to encourage change than remaining a shareholder. In these instances, we will divest loudly, raising the profile of the issue with our member base and in the media.

7. An updated roadmap to Net Zero Emissions by 2050 – World Energy Outlook 2022 – Analysis - IEA
+ Our investment restrictions include some thresholds. Thresholds may be in the form of an amount of revenue that a business derives from a particular activity, but there are other tolerance thresholds we can use depending on the nature of the investment. We apply a range of qualitative and quantitative analysis to the way we apply thresholds. For example, we may make an investment where we assess that the positive aspects of the investment outweigh its negative aspects. For information on how we make these assessments for a range of investment sectors and issues such as fossil fuels, nuclear power, gambling, tobacco, human rights, and many others, please read our Ethical Guide available on our website at: australianethical.com.au/why-ae/ethics/.

A decade of progress

For over a decade we have been taking steps to try to influence the finance sector to help bring an end to unsustainable fossil fuel financing.

We cannot claim attribution for all the following outcomes. There are many other people and organisations working hard toward similar objectives. While we believe we can leverage our position as an investor to positively influence and catalyse change – and we believe we have a responsibility to do so – we also acknowledge these are large problems, and progress will take time and be incremental.

2013

- Through direct engagement, we asked the Big 4 Australian banks to disclose how much they lend to coal, oil & gas
- We called on the banks to align large scale lending to the Paris Agreement

2017

Westpac and NAB excluded new coal projects including Adani coal mine

2019

QBE announced a phase out of its coal exposure after we co-filed a shareholder resolution at their AGM

2020

We divested from Marsh McLennan following their vague commitment to climate goals and SDGs

2021

- NAB capped exposure to the oil & gas sector; Westpac required oil & gas exploration, production & refinement to have Paris-aligned business goals
- QBE joined the UN-convened Net Zero Insurance Alliance

2022

We co-filed new shareholder resolutions for NAB and Westpac and publicly questioned climate commitments at AGMs

2023

- We voted against QBE's executive remuneration plan and the re-election of directors including the Chair citing fossil fuel project underwriting.
- We co-filed resolutions at NAB and Westpac's AGMs that received increased support from shareholders.
- QBE exited Net Zero Insurance Alliance, we continue our engagement
- All major banks refuse Whitehaven Coal's $1 billion debt refinance
- CBA stopped project finance for new and expansionary coal & gas extraction

2024

NAB extended restrictions to customers of high emitting sectors in capital markets activity, plugging a key loophole our resolution drew attention to. NAB also published details of how it will assess customer climate transition plans adopting many of the priorities we communicated and promoted through the resolution we co-filed in 2023.

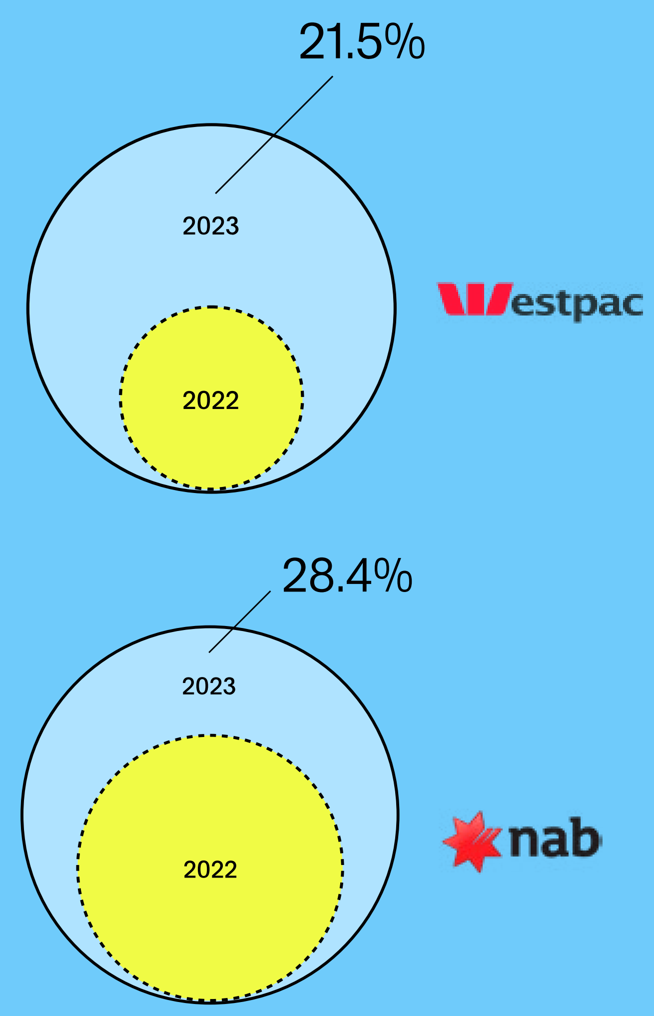
Cutting off financing to fossil fuel expansion

Progress in the last 12 months

What we said we'd do	What we did	What's next (year ahead)
Focus on ensuring that the banks impose robust transition plan requirements on their clients including by questioning the banks on issues around • inclusion of scope 3 emissions • capex plans and criteria • use of offsets • technological assumptions • approach to climate lobbying • bank process for assessing credibility of transition plans and their implementation • scope of application to bank finance and other types of support	Met with board members at WBC and NAB to communicate these expectations and why they matter. Produced a summary for investors analysing WBC and NAB's current approach against each of these areas, highlighting gaps. Tailored a shareholder proposal seeking that the banks expectations of customers consider these areas. Rallied support for shareholder proposals with investors and in the media. The NAB & Westpac co-filed shareholder proposals subsequently received substantial and increased support, empowering our calls for progress (highlighted in infographic on this page). Met again with NAB's management team to detail our asks on transition plans and to convey the strong consensus behind these from a broad range of prominent climate change focused bodies.	We will include banks on list of targets for our positive lobbying initiative seeking that Australia adopts a science-based 2035 Nationally Determined Contribution target. We will be testing NAB's application of its criteria for customer transition plans, and seeking the other banks adopt specifics at least as robust. We will seek that transition plan requirements are extended to all businesses with material involvement in high emissions activities, not only those for whom it is their main business. Also seek extension of lending restrictions to companies involved in the fossil fuel value chain, such as new gas pipelines and LNG production.
Consider how to escalate engagement with QBE toward progress on their climate commitments	Sought support to lodge a shareholder proposal at QBE. That we were unable to progress highlights the need to grow awareness among investors about the important role insurance plays in enabling new fossil fuel projects that lock in future emissions contrary to the Paris Agreement goals. Made the case for investor action on insurers in a presentation to members of the PRI in the Asia Pacific region.	We will include QBE and other insurers on the list of targets for our positive lobbying initiative seeking that Australia adopts a science-based 2035 NDC target. We will seek to promote a robust standard for climate transition plans that effectively rules out underwriting to companies engaged in unsustainable fossil fuel expansion or non-aligned lobbying. Work to influence QBE to implement this good practice in 2025, rather than delaying to 2030. Continue to build investor and industry recognition of the need for insurers and brokers to rule out insuring activities that are inconsistent with preventing dangerous climate change. Continue to advocate for policy that limits the role of gas into the future consistent with the Paris Agreement aims, discussed further in the science-led climate policy section.
Encourage the responsible investment community to also engage on these issues and help bring collective pressure on financial institutions.	Presented at investor briefings and held 1:1 meetings with peers to communicate the gaps in banks' current approaches and the case for supporting the shareholder proposals. Provided media commentary encouraging investor support for the shareholder proposals. Encouraged the establishment of a collaborative engagement group focused on the banks.	We will continue to seek out opportunities to encourage and facilitate the increased attention needed on this issue by other investors to influence greater change, particularly focused on Westpac and QBE.

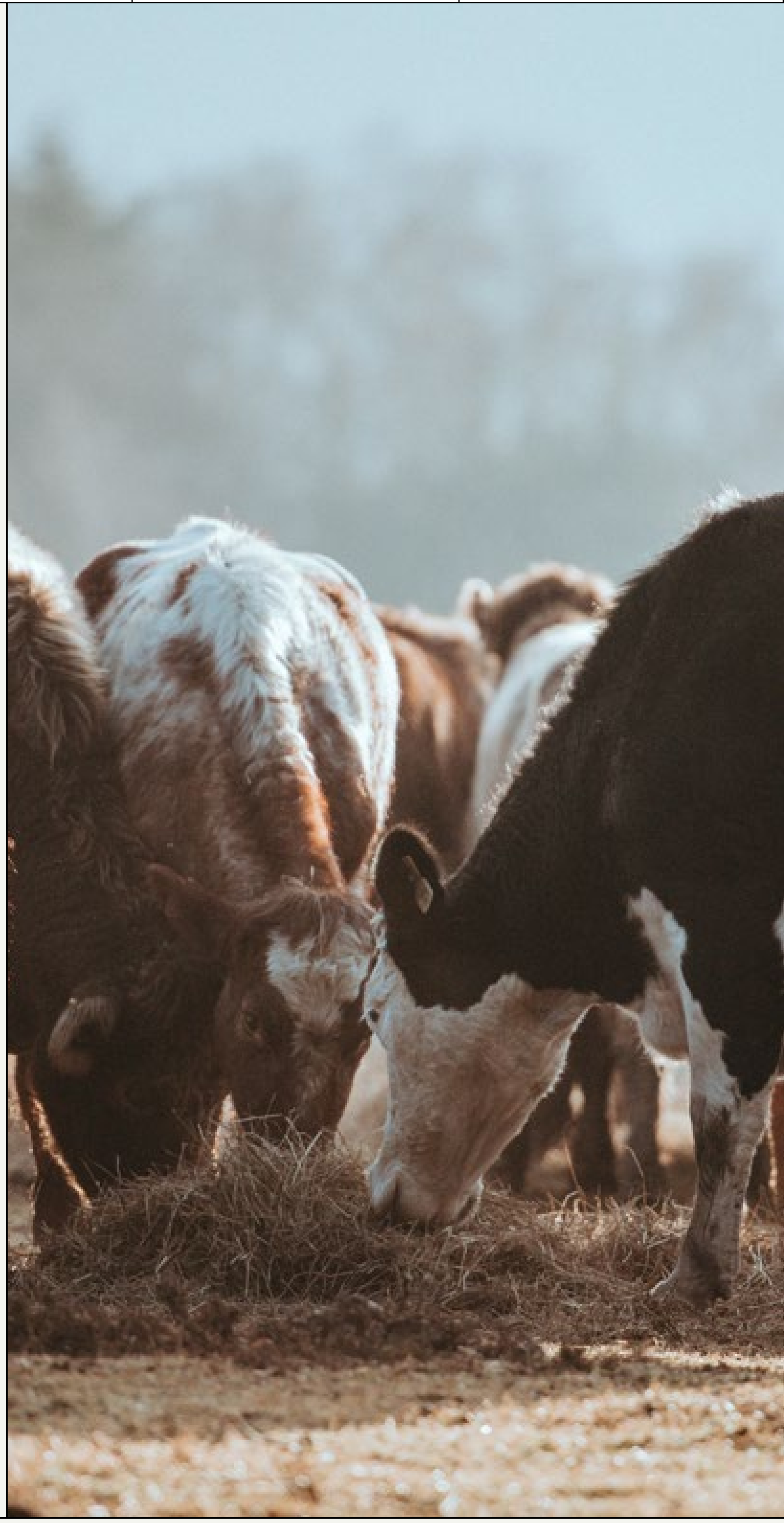
Indicators for success FY25

- Banks and insurance companies agree to engage in positive lobbying calling for science-based 2035 NDC target
- Shared expectations of transition plan requirements are developed that effectively rule out finance and underwriting to companies engaged in unsustainable fossil fuel expansion or non-aligned lobbying
- These robust transition plan requirements are adopted by key groups relevant to banking and insurance industries..
- Other investors committed to take action on the role of insurers and brokers in addressing climate change.
- These robust transition plan requirements are adopted by the banks and insurance companies.



Increased support for our co-filed climate-focused resolutions.

Stopping livestock-driven deforestation in Australia



Why

We restrict+ investments in conventional animal agriculture companies because we assess the harm to animals, and the high environmental impact, to be unnecessary when there are less impactful alternatives. But rather than divest and forget, we consider the impact of livestock in Australia, and in particular its impact on deforestation, as an issue over which we can have positive influence. Australia is the only developed country in the world with an identified global deforestation hotspot[8]. Livestock is the primary driver. Australia is also number one in the world for mammal extinctions[9]. Clearing of native vegetation is a major cause of habitat loss and fragmentation and has been implicated in the listing of 60% of Australia's threatened species[10]. Almost 500,000 hectares of federally mapped koala habitat was bulldozed for beef production between 2015-19 in Queensland[11].

Every hectare of land we use for animal agriculture is a hectare that cannot support wild forests, savannahs, wetlands and other crucial ecosystems. And all that land we could free up with a change in diet could be used to sequester carbon and restore native habitats and ecosystems. For example, one study found that the land that could be spared through a transition to a plant-based diet could remove 8.1 billion metric tons of CO2 from the atmosphere each year over 100 years[12].

In addition to being a primary driver of deforestation, animal agriculture also uses a disproportionate amount of land and other resources relative to the nutritional value it provides. Over half of Australia's total land area is used for agriculture. Around 54% of Australia's land use is for grazing[13]. This does not include land used to grow animal feed. We believe that using so much land for livestock is hugely inefficient. Research suggests that if we moved from current diets to a diet that excludes animal products the world could reduce food's land use by around 3.1 billion ha (a 75% reduction)[14].

How

We believe we can help address livestock-driven deforestation in Australia by bringing attention to the issue through investor forums and engagement initiatives, so that:

- Farmers are incentivised to protect and restore nature. Farmers need to be compensated for land management that results in restoration of nature, and
- there are supply chain and financing challenges for engaging in practices that harm nature.

Investors have a role to play in creating this ecosystem. Collectively, investors can put pressure on companies in the livestock value chain (such as banks and food retailers) to commit to no deforestation policies. Investors can also bring collective pressure on government to create the positive incentives needed for a just transition.

Banks are key here because of the role of lending to farmers in order to clear land, and supermarkets because they purchase the food that farmers are producing and clearing land for. Both banks and supermarkets have the power to put requirements on the customers and producers they lend and buy from, and they also have the power to incentivise good practices from these groups.

We engage with food retailers and banks to explore barriers and opportunities to addressing deforestation issues in Australia, directly as well as through our participation in Nature Action 100+, Climate Action 100+, the Finance Sector Deforestation Action (FSDA), Farm Animal Investment Risk and Return Initiative (FAIRR) , and Business Benchmark on Farm Animal Welfare (BBFAW). These groups work on different but complementary facets of the deforestation problem, whether focused on the emissions resulting from land clearing, or ways to encourage protein diversification.

8. WWF Australia (2021). Source: https://wwf.org.au/news/2021/australia-remains-the-only-developed-nation-on-the-list-of-global-deforestation-fronts/
9. Wilderness Society. Deforestation in Australia: 10 alarming facts. Source: https://www.wilderness.org.au/protecting-nature/deforestation/10-facts-about-deforestation-in-australia
10. Cresswell ID, Janke T & Johnston EL (2021). Australia state of the environment 2021: overview, independent report to the Australian Government Minister for the Environment, Commonwealth of Australia, Canberra. 2021. DOI: 10.26194/f1rh-7r05.
11. Queensland Conservation Council, The Wilderness Society (2022). What's at Steak, Deforestation for beef widespread in Queensland. Source: https://www.wilderness.org.au/images/resources/DeforestationReport2022.pdf
12. Poore, J. and Nemecek, T. (2018). Reducing food's environmental impacts through producers and consumers. Science, 360(6392), pp. 987–992. https://doi.org/10.1126/science.aaq0216.
13. Climateworks Centre. Land Use Futures: Australia's Land Use. Source: https://www.climateworkscentre.org/land-use-futures/australias-land-use/
14. Ritchie H, (2021). If the world adopted a plant-based diet, we would reduce global agricultural land use from 4 to 1 billion hectares. Published online at OurWorldinData.org. Source: https://ourworldindata.org/land-use-diets.

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Progress to date

We have been leveraging our position as an investor to build pressure on companies in the livestock food chain, along with other investors.

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2023

- Through the UN Race to Zero's FSDA initiative, we commenced engagement with Woolworths, as lead investor
- We continued to draw attention to deforestation through the RIAA Nature Working Group and IGCC.
- We continue engagement with banks in relation to their agricultural sector targets through our financing of fossil fuel engagements

2024

- Westpac set new targets for agricultural lending (beef, dairy and sheep) and was the first Australian bank to publish a no deforestation commitment
- Woolworths committed to update its scope 3 target (which relates to its supply chain) to align with SBTi's 1.5°C Forest Land Agriculture Guidance (FLAG), which includes a requirement to commit to no deforestation, in line with our key engagement ask

Stopping livestock-driven deforestation in Australia

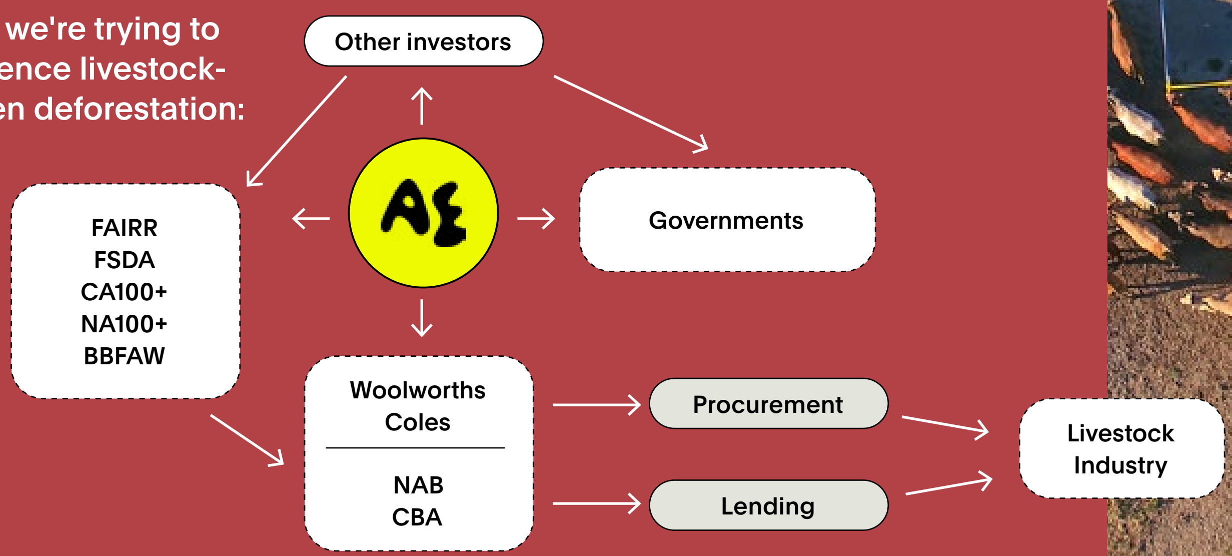
Progress in the last 12 months

What we said we'd do	What we did	What's next (year ahead)
Consider opportunities to continue to encourage Woolworths to apply the no deforestation and conversion standard through: Nature Action 100, Climate Action 100+, and / or escalating FSDA engagement. Through these engagements seek to understand barriers for Woolworths and identify opportunities for how investors could support them to take stronger action.	We joined Nature Action 100 in FY24. We engaged with Woolworths through Nature Action 100 and Climate Action 100+ where we discussed their approach to nature, including agricultural supplier engagement and barriers and opportunities to introducing no deforestation commitments. Woolworths committed to update its scope 3 target to align with SBTi's 1.5°C Forest Land Agriculture Guidance, which includes a requirement to commit to no deforestation	Continue to engage with Woolworths and Coles through investor engagement initiatives (e.g., FAIRR, Nature Action 100, Climate Action 100+, FSDA) and/or independently. Through these engagements continue to develop our understanding around barriers for retailers in applying no deforestation commitments and opportunities for how investors could support them to take stronger action.
Commence engagement with Coles	We commenced engagement with Coles as lead investor through the FAIRR initiative.	Encourage Coles to introduce a no deforestation commitment.
Continue / begin engagements with banks in relation to their agricultural sector targets including through finance / fossil fuel engagements where possible	We had meetings with CBA and NAB to hear more about their approach to addressing deforestation in Australia. We discussed barriers and opportunities to setting no deforestation commitments and outlined our expectations.	Continue engagements with CBA and NAB in relation to deforestation and look for opportunities to encourage banks to adopt no deforestation commitments.
Continue to explore ways to increase financial sector understanding of the extent of deforestation in Australia, its drivers and the solutions available to halt and reverse	We participated in the deforestation panel at the IGCC summit and shared with other investors our experience of divesting shares in developer Lendlease due to the impact of its real estate developments on koala habitat. We highlighted emerging standards and opportunities available to investors seeking to engage with companies on nature-related topics. We also continued to participate in the RIAA Nature Working Group, including contributing to the development of a Nature Toolkit for investors.	Collaborate with other investors and NGOs to support banks to overcome barriers to addressing deforestation in Australia.
Continue to explore ways to contribute to policy discussion including on biodiversity markets and subsidies	We contributed to RIAA's submission to the Federal Government consultation on the Nature Positive Plan. In our response to RIAA, we highlighted the urgency of addressing deforestation and biodiversity loss in Australia and laid out our concerns that current environmental laws do not adequately address the significant issue of land clearing. We also signed on to the Places You Love Alliance business letter for Nature, calling on the government to introduce strong national laws that will help protect and restore nature.	Continue to raise awareness of issues around deforestation in Australia in investor forums, for example through our membership in the RIAA Nature Working Group. Contribute to the development of an enabling policy environment for food systems transformation. We will look for opportunities to contribute to nature law reforms (Federally and state/territory level) and other policy, such as the proposed revision of the Australian dietary guidelines.

Indicators for success FY25

- Increased recognition of deforestation issues in Australia by the financial sector
- Identify solutions for overcoming barriers to setting no deforestation targets (banks and retailers) and/or targets to shift consumption towards more plant-based diets in Australia (retailers)
- Another bank makes a no deforestation commitment
- Coles introduces or commits to work towards introducing a no deforestation commitment in line with SBTi FLAG guidance
- We increase the ambition (with regards to addressing deforestation) of investor group submissions on nature-related policy

How we're trying to influence livestock-driven deforestation:



Reducing building sector emissions

Why

Building materials, like cement, are large contributors to global carbon emissions, are hard-to-abate, and will be needed through the energy transition and into the next economy, making them critical to the decarbonisation of our economy.

As our energy system's decarbonisation progresses toward the 82% renewables targeted by the federal government by 2030, one of the next sectors that will be critical to reducing our emissions will be those from the industrial sector. Given our investment in this emissions-intensive industry, we see it as our responsibility to influence more urgent progress towards alignment with the Paris Agreement.

Building materials producers need to increase their sale of lower emissions products, and continue to innovate to reduce the emissions embodied in their products. Purchasers of building materials for houses, buildings and infrastructure need to create demand for these products. These steps can reduce emissions substantively. Australian building materials company Boral, for example, produces concrete products that replace some of the cement (the carbon intensive part of the product) with supplementary cementitious materials, reducing emissions by up to 50%. That's why short and medium-term targets to reduce emissions through these types of activities are an important criteria in our assessment of building materials investments.

Reducing emissions further to get to net zero will require new technology developments and scaling that hasn't happened yet. This is why we look to see how companies are investing their capital, and where they're relying on technology breakthroughs to get to net zero, ensuring they are investing in the type of research and development that will help those technologies be developed.

As government policy is proposed to help tackle emissions from industrials and the economy more broadly, like the changes to the Safeguard Mechanism[15] that we've seen, it's also vital to assess whether companies are being supportive of climate policy that will enable us to achieve the aims of the Paris Agreement.

Decisions that companies make today, in how they're investing in machinery and processes and how they engage with climate policy, will have large ramifications for their businesses and how prepared they are for the transition, as well as how prepared our economy is to transition, and inevitably, how successful we are in decarbonising at the speed required.

How

As new technologies are being developed, scaled and commercialised, and the building materials sector pathway to Paris alignment and net zero are becoming clearer, we are investing selectively in those companies that meet our science-based, sector-specific, Ethical Criteria.

When we look at the Paris alignment of a high emissions building material producer, we're looking at indicators like their current emissions intensity; their short, medium and long term emissions reduction targets; their transition plans; their capital allocation to technology and research which will help to reduce their emissions compared to spending on legacy technology that might lock in emissions, and how that company is engaging with climate policy through lobbying, directly and through industry bodies.

We've been engaging with building materials companies on their climate performance, particularly focused on their targets and climate lobbying as areas for improvement. We lead CA100+ collaborative engagements and work with other investors to try to influence companies to improve.

Accelerating the sector towards Paris alignment also requires strong demand signals for lower embodied carbon products by those commissioning, constructing and designing buildings, homes and infrastructure. As well as engaging with suppliers of cement, we try to encourage demand for lower embodied carbon building products, through engagement and industry collaboration.

We've sought out opportunities to leverage the investor perspective to further these objectives. In particular, through our membership of the Materials and Embodied Carbon Leadership Alliance, we've been working toward the development of requirements from state governments for the measurement and disclosure of whole of life carbon emissions for built environment projects, to create a benchmark that can be used to set an emissions reduction target, and ultimately a carbon budget embedded in the National Building Code.

15. The Safeguard Mechanism is the policy for reducing emissions at Australia's largest industrial facilities. It sets legislated limits on the greenhouse gas emissions of these facilities Safeguard Mechanism - DCCEEW

Progress to date

We cannot claim attribution for all the following outcomes. There are many other people and organisations working hard toward similar objectives. While we believe we can leverage our position as an investor to positively influence and catalyse change – and we believe we have a responsibility to do so – we also acknowledge these are large problems, and progress will take time and be incremental.

2021

- We commenced as a co-lead on the Boral Climate Action 100+ engagement
- We became a founding partner of the Materials and Embodied Carbon Leadership Alliance (MECLA)
- Boral become the first in the global construction materials industry to set FY30 science-based scope 1 and 2 targets aligned with limiting global warming to 1.5°C

2022

- We became the sole lead investor on the Boral engagement and continued our dialogue with the company

2023

- We joined the Adbri Climate Action 100+ engagement as lead investor
- Boral ranked as one of three companies in Australia in Climate Action 100+'s (CA100+) Benchmark as misaligned in its direct and indirect lobbying
- Boral announced it would be lowering the ambition of its 2025 target from 18% to 12-14% and updating its 2030 target
- We wrote an open letter to Boral's board of directors, spoke to the media and voted against the re-election of the company's chairperson on climate grounds

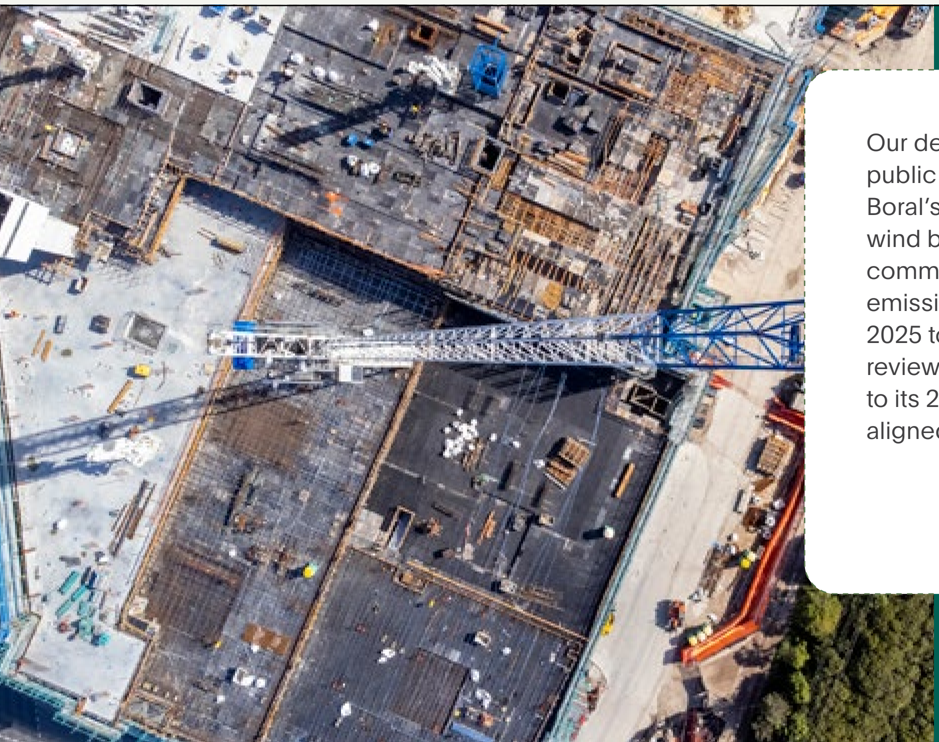
2024

- Following our engagement with Adbri on its climate lobbying, the company commenced reporting on its policy positions
- Following engagement, the Cement Industry Federation improved the alignment of its lobbying

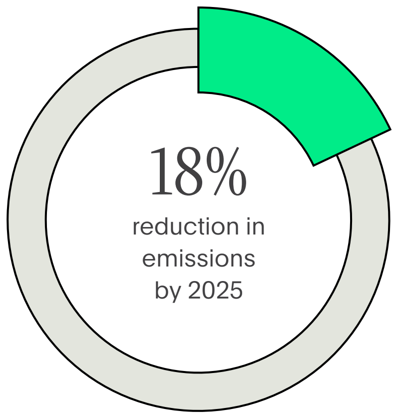
Reducing building sector emissions

Progress in the last 12 months

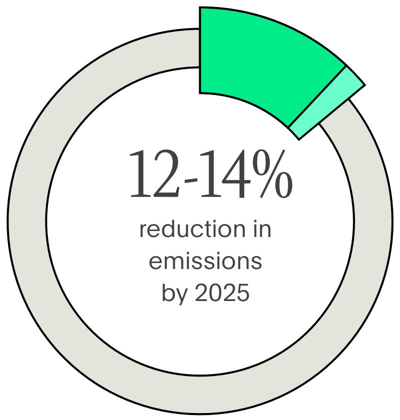
What we said we'd do	What we did	What's next (year ahead)
Focus on understanding Boral and Adbri's current climate lobbying activities, including lobbying conducted by industry groups they are members of, and applying pressure where we see their activities are not aligned with the goals of the Paris Agreement.	Based of InfluenceMap data on the policy submissions and engagement of both companies and their peak body, we found that they were lobbying on climate in a way that was misaligned with Paris Agreement goals. We raised this issue with both companies' CEOs, agitated in the media about Boral's lobbying, and engaged with their peak body, CIF surrounding their lobbying. Boral and CIF committed to improving their alignment, and we facilitated conversations between both and InfluenceMap in December. Subsequently, CIF's lobbying has improved. Adbri committed to improving disclosure and assessing alignment of positions with Paris. This year's reporting has commenced disclosing their policy positions.	Boral received a takeover bid by Seven Group Holdings to buy the remaining listed shared of the company. This has now taken place, meaning Boral is no longer a listed company, and will be removed from the ASX. We'll be seeking to see these issues remain on the agenda, but the company will no longer be a CA100+ company, and we will no longer be an investor, reducing our leverage and influence to engage with this company. Adbri has now delisted as a result of a successful takeover bid by CRH. CRH is covered by CA100+ internationally.
Work to encourage the uptake and retention of science-based targets by Boral and Adbri, supported by detailed transition plans and appropriate research and development expenditure.	We engaged with Boral about retaining their 2030 target, meeting with their CEO, sending an open letter to their board, and also agitating in the media. We expect to see the outcome of the review of their 2030 target later this year. We engaged with Adbri about increasing the ambition of their target, meeting with their CEO. The company will be reviewing the ambition of their target this year.	As noted above, successful takeover bids for each Boral and AdBri will limit our ability to continue to engage directly on these concerns.
Seek out opportunities to increase awareness of embodied emissions, lower carbon alternatives, and the need for producers and purchasers of building materials to consider embodied emissions in the footprint of buildings and other projects. Continue to gather information on embodied emissions and solutions, to develop appropriate expectations of building material producers and purchasers.	As members of MECLA's demand side working group, we worked to address blockers to increased demand for lower embodied carbon building materials. We have developed our ethical investing expectations of Building Materials companies, with a framework planned to be finalized over FY25	We will continue to incorporate embodied emissions into engagements and company assessments for companies involved in the development of buildings, homes and infrastructure



Our decision to apply public pressure follows Boral's decision to wind back its existing commitment to reducing emissions from 18% by 2025 to 12-14%, and to review its commitment to its 2030 1.5 degree aligned target.



Existing commitment



Revised commitment

Potential indicators of success for FY25

- Boral and Adbri disclose their direct and indirect climate lobbying activities and their alignment with the Paris Agreement, and support Paris aligned climate policy in Australia.
- Boral and Adbri commit to develop or retain science-based emissions reduction targets
- As a result of our engagement on embodied emissions, we see building materials purchasers increase their uptake of lower embodied emissions products, or other measures to reduce embodied emissions
- As a result of the delisting of both Boral and Adbri, this year, we will be reviewing how we can influence industrial and hard to abate emissions as a critical part of the transition.

Seeking science-led climate policy

Why

The lowest cost option we have as an economy, is an orderly 1.5 degree pathway. That means setting a plan and reducing emissions now, to avoid the extremes and the costs of warming, which have already started. There is no zero cost pathway. We can pay for transition now, or we can pay for warming. The costs on lives, on livelihoods, on jobs and on businesses will be far greater, in the world where we don't transition, or do so at the eleventh hour.

The government is vital to our economy's transition. Efforts need to be coordinated, and businesses and investors need to see from government a clear and consistent signal on the direction and speed of travel.

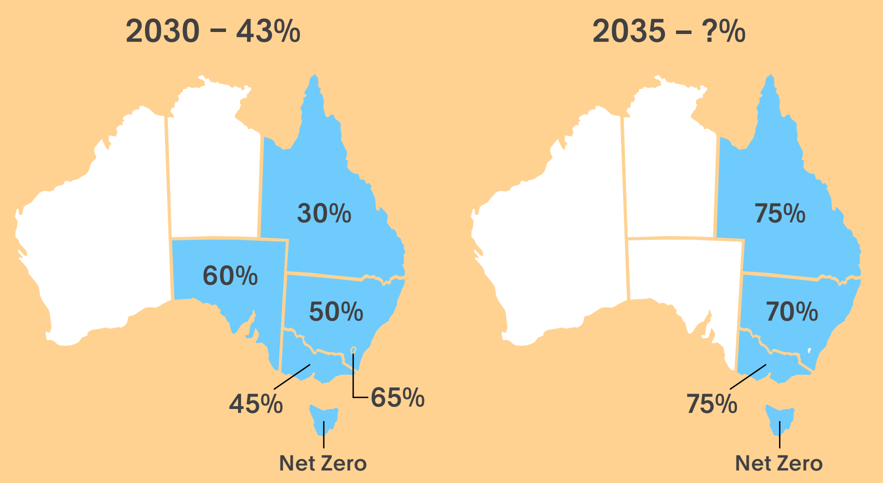
The scale of capital allocated to the transition will reflect the expectations investors and businesses have for Australia's transition, which will be shaped in part by the 2035 target, by sector plans, and by the supporting policy initiatives the government creates. These policies need to be consistent and they need to be stable, so that multi-decadal decisions to invest in the energy, the infrastructure and the equipment to decarbonise, can be made.

The next big indicator that the government will give about the direction and pace of travel of our economy's transition will be the setting of Australia's 2035 Nationally Determined Contribution (NDC). All signatories of the Paris Agreement need to submit 2035 targets higher than their 2030 commitments, ratcheting up global ambition and progress.

So far in Australia, we have not had a 1.5 degree aligned NDC (federal emissions target), and the government now has an opportunity to set an ambitious target and a plan for how we can take the least cost, least harm, pathway to net zero.

Another important action that's currently under way is the establishment of sector pathways. Those plans will provide an allocation of emissions between different sectors to meet our federal target, and they'll be announced by the government alongside the target by the start of 2025.

State and federal emissions reduction targets



16. https://australia.influencemap.org/briefing/Corporate-Climate-Policy-Engagement-in-Australia-26243

How

We've been using our voice to encourage ambitious action by the government to avoid harm to people, planet and animals and promote a prosperous economy, communities and ecosystems. Policy is one of the most direct ways to ensure groups are operating responsibly in the economy, and is an important tool for issues that require collective action, like climate change.

The levers we're using to influence a more ambitious NDC for 2035 are:

1. Policy submissions
2. Policy maker direct advocacy
3. Public advocacy
4. State government engagement
5. Positive influence from investors and corporates

We think that if we can increase the ambition of other investors, companies, key communities, and the state governments, this will amplify our calls to government through policy submissions and direct engagement for an ambitious 2035 target. Additionally, by contributing to investor group submissions and engagement, we're able to leverage a collective investor voice and increase the ambition of group positions.

We also know that we have a serious lobbying problem in Australia, particularly around climate policy. The policy engagement environment in Australia is currently dominated by fossil fuel voices. During the Albanese government's first year in office, 13 out of 15 of the most engaged companies, and 13 out of 15 of the most engaged industry associations on climate policy were those with fossil fuel interests. They were advocating for a continued role for fossil fuels that is misaligned with the advice of the IPCC[16]. This means the cases being made to policy makers are skewed toward considering transition costs, rather than warming costs, or opportunities from transition for new industries.

This is why in this strategic stewardship area we've been focused on the NDC, and we've been focused on the lobbying around it. We need more diversity in the voices engaging on climate policy, representing investors who are looking across the economy and making long term decisions, and also from all of the other sectors of the economy who will benefit from an orderly transition, and who are facing serious risks from warming.

We've been leading a positive lobbying thematic engagement through CA100+ and IGCC this year, to create a show of public support from investors and large Australian listed companies across the economy for an ambitious and 1.5 degree aligned 2035 target.

While we believe we can leverage our position as an investor to positively influence and catalyse change – and we believe we have a responsibility to do so – we also acknowledge these are large problems, and progress will take time and be incremental.

Pursuing science-led climate policy

Progress in the last 12 months

What we did	What's next (year ahead)
We contributed to two submissions to the Climate Change Authority (CCA) on the ambition of the 2035 NDC, coordinated by the Investor Group on Climate Change (IGCC), in order to lift the ambition of the submission and the target. We also contributed to IGCC's submission on the Future Gas Strategy, and met with the Department of Industry, Science and Resources on the strategy to encourage the alignment of gas policy with our commitment to Paris, and with the governments objectives to reduce emissions. We contributed to RIAA's submission to the Department of Climate Change, Energy, the Environment and Water on proposed change to the Environmental Protection and Biodiversity Conservation Act and the need to have a 'climate trigger' to bring the Act into operation on new, emissions intensive projects.	Our Chair, Steve Gibbs, will join a group of investors in Canberra in August meeting with key politicians and departments on the importance of the target and to encourage ambition, with IGCC and Principles of Responsible Investment (PRI). We will continue to look for opportunities to amplify our calls to government through policy submissions and direct engagement for an ambitious 2035 target.
We've been leading a positive lobbying thematic engagement through CA100+ and IGCC this year, to create a show of public support from investors and large Australian listed companies across the economy for an ambitious and 1.5 degree aligned 2035 target. After a period of outreach to investors and companies, we held a co-drafting session with key large companies that are emissions intensive, as well as those who will be impacted by a warming climate, to shape the wording of a public letter to Parliament alongside investors. Ten key corporates and five investors participated in the co-drafting process.	The letter will be finalised and opened up for signatories, before being published in the coming months, ahead of the CCA releasing its advice to government on the target, in order to provide support for setting an ambitious target.
We agreed to chip in to fund a public campaign on behalf of investors on the importance of ambitious climate action, in order to increase understanding of the benefits to Australia and communities within it of taking action to transition now, which will go live during FY25.	We will amplify this campaign through our social media, with our members, with the media as a spokesperson, and at conferences and speaking events. We will continue to seek out opportunities to amplify our own and others' voices for an ambitious 2035 target, and speak publicly about the importance of the ambition of this target.
We have joined PRI's Sovereign Engagement with a group of domestic and international investors, and will be a lead investor in the sub sovereign working group.	We'll be taking the lead on conversations with the Western Australian government, focused on the state developing ambitious 2030 and 2035 emissions reduction targets. WA's support and contribution to the federal emissions reduction target will be vital to its success.

Potential indicators of success for FY25

- Submissions and communications with policy makers made by investor groups on key climate policy align with our high ambition level and asks
- A group of large Australian investors and corporates demonstrate positive lobbying around climate policy by signing the letter on the 2035 target
- We advance conversations with the WA government, and see progress toward interim target setting
- We use our voice to create growing public understanding and support for an ambitious target

Persephone Fraser (front, center) alongside Erwin Jackson, Director of Policy at the Investor Group on Climate Change (IGCC) at Parliament House in Canberra in September discussing climate change and climate disclosure with key politicians.

Advancing alternatives to animal research

Why

An estimated 190 million animals were used for scientific purposes in 2015 (not including observational studies)[17]. Most of the animals used for scientific purposes will suffer. Their lives may be spent entirely in confinement. Many are bred or genetically altered to introduce a specific disease such as cancer or dementia. Some undergo surgery to mimic conditions such as deafness; many are subjected to invasive procedures, restraints or are forced into situations to induce stress. Generally animals are killed when an experiment ends (if they do not die as part of the experiment).

A common response we received from companies was that they only conduct or commission animal research when "absolutely necessary", and all research is approved by animal ethics committees. We do not consider this sufficient to demonstrate genuine application of the 3Rs (Replacement, Reduction and Refinement). Generally, an Animal Ethics Committee sits within the organisation conducting the research and includes members who are independent. Based on our consultations, we are concerned that Animal Ethics Committees may not have the knowledge or may not be in the position to say no to an animal research proposal or to identify opportunities to use alternatives. Animal Ethics Committees certainly have their place, but they rarely challenge whether an animal research proposal should proceed and they have not always stopped questionable research on animals going ahead. They can sometimes entrench the status quo and are not a good vehicle to progress the use of alternatives.

We do not invest+ in cosmetic companies that conduct or commission animal research because we do not think the animal suffering is justified. However, we recognise that animal research is currently a necessary part of developing health care products and so we may invest in companies that conduct or commission animal research for health care product purposes depending on how they meet our Ethical Criteria, including on animal testing.

Where healthcare companies or universities are involved in animal research, we require evidence of genuine commitment to the 3Rs. Our understanding of what genuine commitment to the 3Rs looks like is evolving as we learn more about the complicated and opaque world of animal research.

How

We have an opportunity to leverage our investment in healthcare companies to help accelerate a transition to alternatives to animal research. Because we see limited investor attention on this issue, we believe it is our responsibility to be active, advocating for change in this area.

Our theory of change is that we can help accelerate the transition to alternatives to animal research by influencing:

- healthcare companies and universities involved in animal research to be genuinely doing everything they can to replace animal research with alternatives wherever possible, including by consulting with people who have expertise in alternatives. They cannot simply rely on Animal Ethics Committees which can be conflicted and can lack knowledge and expertise in alternative models.
- industry, academic and other research institutions, and government to collaborate to fund, validate and commercialise alternatives to animal research.

We have been pursuing two work streams aligned to our theory of change:

1. Working to influence healthcare companies and universities to have robust animal research policies in place to promote genuine efforts to transition towards alternatives wherever possible
2. encouraging pre-competitive industry, academic, institutional and government collaboration to develop, validate and commercialise alternatives.

We continue to encourage collaboration to develop, validate and commercialise alternatives. Animal welfare policies only go so far, and the reality is, even under the best conditions with application of the best policies, animals suffer when they are used for research. Replacing animals with alternatives has to be the focus. When it comes to replacing animals with alternatives, individual companies are constrained by what they can achieve by virtue of regulatory requirements and commercial realities. But this is no excuse for inaction. We think there is opportunity to shift the dial on this issue through pre- competitive industry collaboration to fund, validate and commercialise alternatives to animal research.

17. Taylor K, Alvarez LR. An Estimate of the Number of Animals Used for Scientific Purposes Worldwide in 2015. Alternatives to Laboratory Animals. 2019;47(5-6):196-213. doi:10.1177/0261192919899853

Progress to date

Six years of progress: We have been working to influence companies and collaborating to validate and commercialise alternatives to animal testing.

We cannot claim attribution for all the following outcomes. There are many other people and organisations working hard toward similar objectives. While we believe we can leverage our position as an investor to positively influence and catalyse change – and we believe we have a responsibility to do so – we also acknowledge these are large problems, and progress will take time and be incremental.

2018

We engaged with 14 companies and other stakeholders, including scientists on animal ethics committees, to better understand the 3Rs best practice through letters and meetings

2019

We developed five minimum expectations[18] for companies involved in animal research

2022

We wrote to nine Australian & NZ companies to confirm they are meeting our minimum expectations, 5 companies confirmed that they did

2023

Australian Ethical and the Foundation co-sponsored a CSIRO project on a non-animal models roadmap for Australia. After notifying of our intention to divest, Cochlear committed to establishing a formal policy on animal ethics and Opthea committed to using only AAALAC[19] accredited vendors for animal research

2024

We developed a statement of support to promote the advancement of non-animal models in Australia and key companies within our portfolio, universities and other organisations pledged their support. The statement has 27 signatories so far

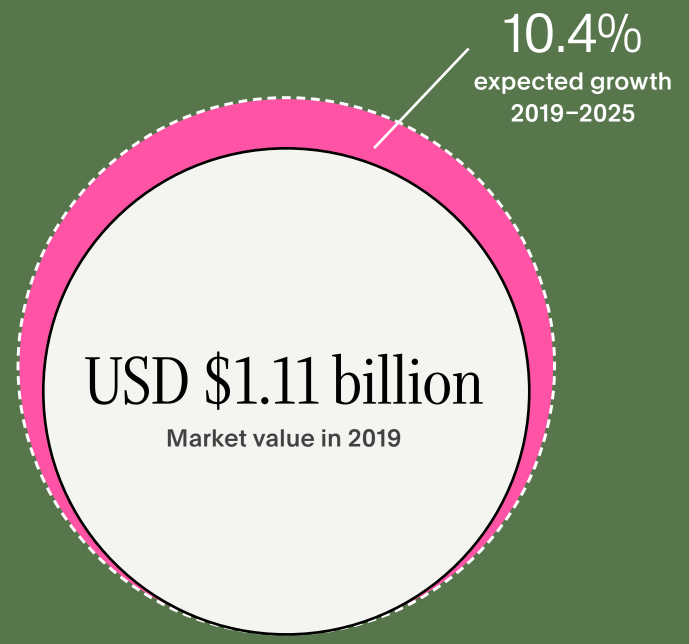
18. Current minimum expectations for companies involved in animal research are available in our 2023 Stewardship Report (page 11).
19. The Association for Assessment and Accreditation of Laboratory Animal Care (AAALAC) provides independent, assessment of an institution's animal research program. Seeking to only use AAALAC accredited vendors demonstrates that companies vet research institutions specifically on animal welfare credentials.

Advancing alternatives to animal research

Progress in the last 12 months

What we said we'd do	What we did	What's next (year ahead)
Work to influence healthcare companies and universities to have robust animal research policies in place to ensure genuine efforts to transition towards alternatives wherever possible *Domestic:* • Monitor Cochlear's delivery on its commitment to introduce an animal ethics policy *International:* • Progress our engagement with the six international healthcare companies seeking to bring them into alignment with our minimum expectations *Universities:* • Progress our university benchmark, seeking feedback from a larger number of universities • Encourage pre-competitive industry, academic, institutional and government collaboration to develop, validate and commercialise alternatives. • Leverage the recommendations in the CSIRO report by developing a sign-on-statement that can be supported by industry, the university sector, other research institutions and other investors. This statement will call on the Australian government to develop a collaborative and strategic approach to advance alternatives to animal research. • Contribute to the Ausbiotech panel discussion on alternatives to animal research	*Domestic companies* • We expanded our engagement program with domestic healthcare companies, engaging with three companies across pharmaceuticals and biotechnology, and furthered an existing engagement. Each engagement demonstrated progress or commitment to improve in line with our minimum expectations. *International companies* • We expanded our engagement program to include several new international companies, primarily across pharmaceuticals, and five companies provided sufficient evidence that these companies meet our minimum expectations. • We gathered examples of leading practice to help us continue to refine our minimum expectations. *Universities* • Our work on finalising a benchmark for universities is ongoing and we expect to complete this in FY25. • We developed a sign-on statement of support to promote certain recommendations from the CSIRO report published in 2023 that we co-sponsored, outlining a national roadmap for the advancement of non-animal models in Australia. We asked for support from companies and universities in our portfolio, as well as from NGOs that conduct animal research advocacy. The statement has 27 signatories so far. • We presented at the 2023 AusBiotech conference and the BioMelbourne forum to promote awareness of animal research alternatives. These forums were also opportunities for us to further develop networks of industry participants and organisations that could pledge support for our statement.	*Domestic & International companies* • Promote alignment with of our minimum expectations for both domestic and international companies. • Based on results from ongoing engagements, begin to develop benchmark or record of best practice that could form basis of evolved expectations or information sharing. • We will review Cochlear's animal ethics policy and, more broadly, it's approach to animal research in the first half of FY25. *Universities* • Revisit our draft expectations for universities and seek further feedback to ensure we have properly calibrated what universities are already doing to advance replacement research models, what leadership looks like, and where the gaps in ambition are. Once we have a finalised set of expectations we will conduct benchmarking across the Australian university sector. • Collaborate with NGOs to develop an advocacy plan and identify relevant government bodies and individuals who can help support the asks of the statement on non-animal models and its implementation. • Look for opportunities for other ways companies and universities can address systemic barriers to the advancement of non-animal models.

Global non-animal testing market
compound annual growth rate (CAGR)[20]



Potential indicators of success for FY25

- Our statement of support for the adoption of recommendations from the CSIRO report is shared with relevant policy makers, and commitments of support obtained to implement these recommendations
- Evidence of continued commitment to minimum expectations across new and existing company engagements, including where we evolve our expectations
- Minimum expectations of universities are developed, and universities meet or commit to meet minimum expectations, and help evolve expectation

20. Source: Global non-animal testing market includes academic research institutions and various industries (such as pharmaceuticals, medical devices, chemicals & pesticides and cosmetics) performing animal testing to conduct basic research, toxicology profiling, and others. The Business Research Company (2023) Global Animal Testing And Non-Animal Alternative Testing Market Report And Strategies To 2032. <https://www.thebusinessresearchcompany.com/report/animal-testing-and-non-animal-alternative-testing-market> (accessed 10 July 2023).

Tactical Stewardship

Modern slavery

Under our human rights framework, we seek to avoid investments in companies that are not making genuine efforts to discharge their business responsibility for human rights (as set out by the UN Guiding Principles). This includes where there is evidence of adverse human rights impacts in a company's own operations, or within their supply chain. Over FY24 we engaged with a number of companies on concerns regarding the risk of, or claims of, instances of human rights abuses in supply chains. For example, we engaged with Dell, Apple and SunPower regarding concerns of forced labour in their supply chain, specifically relating to suppliers based in China, to seek that they conduct adequate due diligence to detect such human rights abuses, that human rights policies are implemented, and that they have adequate processes in place to remediate harms when they're found. For more information, please see our Modern Slavery Reporting.

Access to medicine and drug safety

When ethically assessing pharmaceutical companies, we consider how they are working to improve access of their products to low and middle income countries as well as any product safety issues. This year, we engaged with Eli Lilly on their performance on access to healthcare and potential misuse of their diabetes drugs for weight loss.

Native forest logging

We commenced engagement with Brambles, a logistics company that provides pallets, crates and containers, over a controversy regarding its wood supply chain. Brambles had sourced timber from the Dormit Mill, which processed timber from native forest logging in Gippsland, before being stopped by court decision. This event raised concerns about potentially unseen native forest logging in Brambles pallet supply chain, despite the certification of the wood it purchases. We will avoid+ investing in or apply negative adjustments to companies whose value chains directly and materially contribute to the key drivers of nature loss unless they are making genuine commitments and taking credible action to address negative impacts. We are continuing to engage with Brambles to ensure they meet our expectations, and to encourage them to stop purchasing wood from native forests.

Weapons components

We will not invest+ if any of a company's revenue is from the production of whole weapons. Weapons excluded include both conventional and controversial military weapons, as well as non-military weapons.

When assessing companies that are involved in the production of weapons components, we consider the materiality of their involvement against any positive contributions they make. For a strongly positive company, we will still rule them out for investment if more than 5% of revenue is earned from weapons components made for that purpose. This year, we engaged with Analog Devices regarding their involvement in the production of components specifically designed for weapons systems, which resulted in our decision just after year end to divest from the semiconductor company.

Mandatory climate related disclosures

In FY24, we went to Canberra alongside other investors to show our support to policy makers for mandatory climate related disclosures. In particular, we sought t to encourage the required scenarios companies would need to report against to be changed to a 1.5 degree and a higher warming scenario. Mandating covered companies to assess how their business would perform both in a 1.5 degree world, and how it would perform in a high warming world is important because it allows companies to compare the costs of transition and the costs of warming, and greater incentivise ambitious action to decarbonise. These changes have been incorporated into the legislation, and we expect them to be passed into law later this year.

Interest rate transparency

In FY24 we engaged with several Australian SME lenders (Credabl, Metro Finance, Liberty) to better understand whether they meet our expectations for Financial Services, including expectations around transparency to borrowers. From these engagements we were disappointed to find that disclosure of interest rates on commercial contracts is still not standard market practice in Australia. This is due to a combination of weaker regulations around commercial loans and continuing failure by many lenders to recognise that their long-term success relies on building customer trust through responsible lending practices.

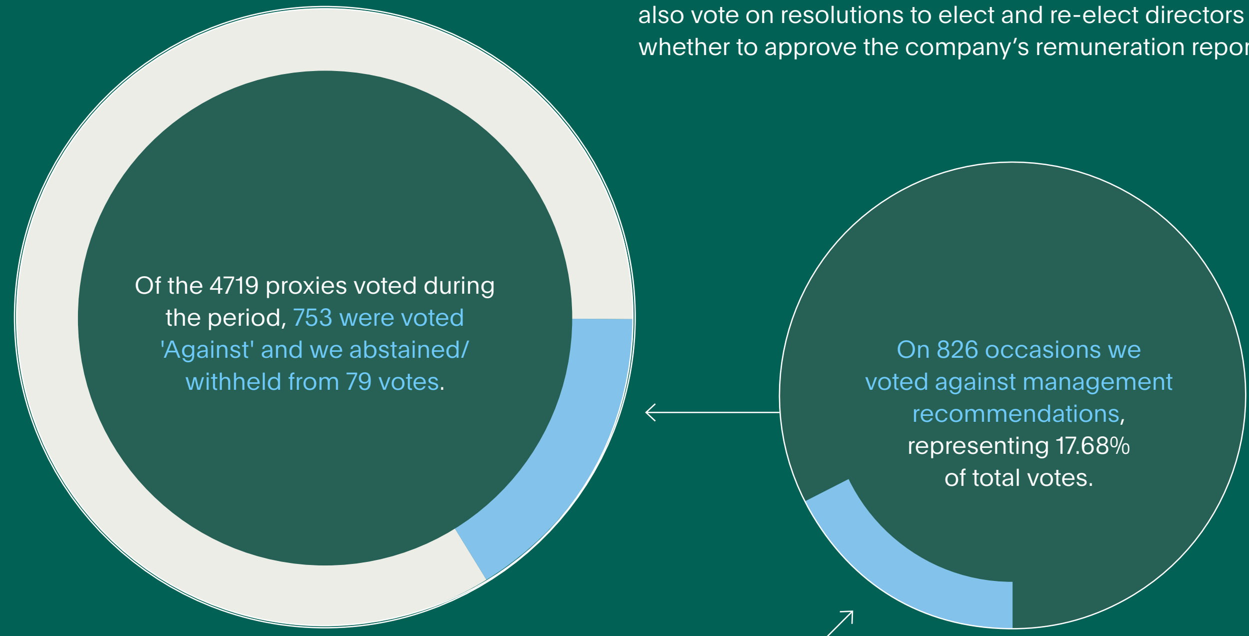
We communicated to these lenders our expectations for transparency to all customers, including SMEs. We shared examples of peers that commit to more transparent lending for specific types of SME finance, including the signatories to the Online Small Business Lenders Code: https://www.afia.asn.au/osbl-code. This Code includes a requirement for presentation of rate and other metrics "standardised in calculation and presentation and providing a clear and concise loan summary sheet before a loan is accepted so [customers] can see the key features of a product".

We are exploring whether we can promote further transparency amongst SME lenders in FY25. We will be raising our expectations with SME lenders and via external investment managers. We will also aim to promote awareness of the Online Small Business Lenders Code and its extension to other forms of SME finance.

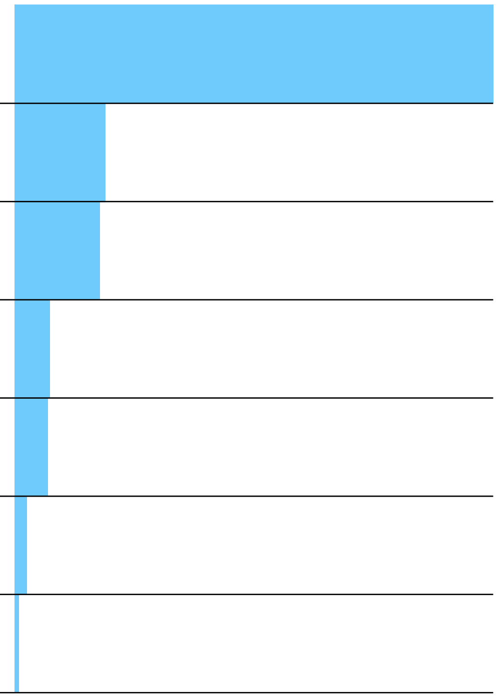
+ Our investment restrictions include some thresholds. Thresholds may be in the form of an amount of revenue that a business derives from a particular activity, but there are other tolerance thresholds we can use depending on the nature of the investment. We apply a range of qualitative and quantitative analysis to the way we apply thresholds. For example, we may make an investment where we assess that the positive aspects of the investment outweigh its negative aspects. For information on how we make these assessments for a range of investment sectors and issues such as fossil fuels, nuclear power, gambling, tobacco, human rights, and many others, please read our Ethical Guide available on our website at: australianethical.com.au/why-ae/ethics/.

How we voted[21]

Voting is an important lever for shareholders to influence company boards and management. This can be voting on shareholder resolutions, commonly resolutions initiated by shareholders about climate; diversity of directors; transparency or other matters of concern. Shareholders also vote on resolutions to elect and re-elect directors and whether to approve the company's remuneration report.



Of these there were:



- **535** instances related to diversity and inclusion concerns, primarily a lack of diversity on the board
- **98** related to other ESG concerns, including climate and employee welfare
- **96** related to management, executive or board compensation and incentives
- **40** in the interest of protecting shareholder rights
- **38** instances concerned with the independence of board members, committee members, or auditors
- **14** instances were where we supported further disclosure around lobbying activities
- **5** instances where we supported increased reporting of risks to human rights.

21. This breakdown provides the number of instances where a vote was cast due to the reasons mentioned. However, a decision to vote against management recommendations may be attributed to multiple reasons and therefore this breakdown does not reflect numbers of individual votes.

The information in this report is general information only and does not take account of your individual investment objectives, financial situation or needs. Before acting on it, consider its appropriateness to your

circumstances and read the Financial Services Guide (FSG), the Product Disclosure Statement (PDS) and Target Market Determination (TMD) for the relevant product available on our website for information on the benefits and risks of our Funds. You should consider seeking advice from an authorised financial adviser before making an investment decision.

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