First Sentier Investors Stewardship Report 2020

First Sentier Investors

A

Contents

Welcome to our 2020 Stewardship Report

At First Sentier Investors, we know that the individual and collective decisions we make as investors have far-reaching implications. We firmly believe that our emphasis on stewardship reinforces the quality of our investment process and is part of our broader social licence to operate.

We've built our overarching ESG strategy on three strategic pillars:

- **Quality**
- **Stewardship**
- **Engagement**

Each pillar is underpinned by a strong governance framework and reinforced by our specialist Responsible Investment team.

We strongly support the UK Stewardship Code 2020 (the Code) as set out by the Financial Reporting Council (FRC). This report explains how we apply the Code's 12 principles across both our global business and our range of asset classes. It shares the progress we've made and the challenges we've faced over the past year. At the same time, it highlights our continuing commitment to stewardship and responsible investing – a commitment that's always been at the heart of our organisation.

Introduction from our CEO

We're delighted to share our 2020 Stewardship Report. It describes our ongoing dedication to stewardship and describes how we meet the 12 Principles in the FRC's UK Stewardship Code 2020. It complements the annual global Responsible Investment Report we've published since 2007.

We're proud of our long history of commitment to Responsible Investment (RI) and the principles of stewardship. For more than a decade, First Sentier Investors[1] (FSI) has been committed to RI and stewardship globally. We've proved it by actively encouraging environmental, social and governance (ESG) practices across every area of our business.

In this report, we share our key achievements and challenges of 2020. Through case studies and examples of our stewardship in action, we highlight how committed we are to RI across asset classes and geographies. We also explain how we're complying with the enhanced standards and talk about our areas of future progress and collaboration.

We reinforce what's right

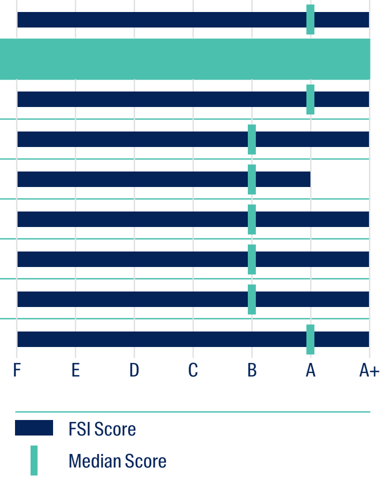
ESG factors and stewardship have long been integral to our core corporate values and investment approach. By embedding a robust ESG framework at every level across our global firm, we make sure we do what's right for our clients, our shareholder, our people and wider society. More than that, by encouraging the companies we invest in to scrutinise their own ESG practices, we promote greater transparency and responsibility. Ultimately, that helps to protect investor returns.

Here are just a few achievements that underline our commitment:

- The Principles of Responsible Investment (PRI) awarded us an A+ rating across seven out of eight categories in our 2020 Annual PRI Assessment
- We report in line with the recommendations of the Task Force for Climate-Related Financial Disclosure (TCFD). We also encourage the companies we invest in to do the same
- Our firm-wide stewardship principles have been in place since 2013.

2020 Annual PRI Assessment Summary Scorecard

Module Name	FSI Score
Strategy & Governance	A+
Direct & Active Ownership Modules	
Listed Equity – Incorporation	A+
Listed Equity – Active Ownership	A+
Fixed Income – SSA	A
Fixed Income – Corporate Financial	A+
Fixed Income – Corporate Non-Financial	A+
Fixed Income – Securitised	A+
Infrastructure	A+



[1]First Sentier Investors is the new name for First State Investments, also formerly known as Colonial First State Global Asset Management in Australia. The rebrand took place outside of Australia on 22 September 2020

We believe companies must earn their social licence to operate

2020 was a watershed year for investors and companies globally. The COVID-19 pandemic forced individuals and societies to consider the way we live, work and connect with one another. The fragility of our ecosystems, the interconnectedness of our social systems, and the social obligations of companies and governments have all been under the spotlight. For investors, the way we allocate capital and the interactions we have with companies are more important than ever. We believe there will be an ever-increasing focus on how companies impact the world around them and how they earn their social licence to operate (SLO). A critical, intangible corporate asset, SLO refers to the broad, ongoing social acceptance that a company has a right to do business.

We're committed to ESG from the top down

As chair of our Responsible Investment Steering Group, I'm personally involved in deciding where to focus our sustainability and ESG stewardship activities. I support our investment stewardship leaders across our global business, working alongside our Global Responsible Investment team. You'll find details of the team on page 17.

At FSI, RI is part of everyone's job. Our independent, specialist investment teams in particular are tasked with analysing the material issues facing their respective investment spheres. This is integral to their due diligence, and they share their insights and findings.

We welcome the industry's change in attitude to RI

The idea that responsible investing comes with a potential financial trade-off is no longer credible. When it comes to issues like plastic pollution, or threats to biodiversity and human rights, the attitudes of clients, consumers and policy makers have changed. Now it's impossible to invest long term without thinking about the impact of these topics.

In times of great uncertainty, active management firms like ours must identify opportunities that benefit investors and deliver value to them. As always, we welcome your feedback on our work.

Yours sincerely,

Mark Steinberg
CEO, First Sentier Investors

View our latest Responsible Investment Report on our website under "Responsible Investment".

Mapping against the UK Stewardship Code

Our approach to stewardship and our practices set out in this report are aligned with leading industry standards including the UK Stewardship Code 2020 and its 12 Principles as set out below.

1. Purpose, strategy and culture — p 1-3, 8, 10-13
2. Governance, resources and incentives — p 12-21
3. Conflicts of interest — p 21
4. Promoting well-functioning markets — p 37-55
5. Review their policies, assure their processes and assess the effectiveness of their activities — p 19
6. Take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them — p 6-9, 56-58
7. Stewardship, investment and ESG integration — p 22, 24-27
8. Monitoring managers and service providers — p 23
9. Engagement — p 11, 28-36, 43-51
10. Collaborative engagement — p 48-52
11. Escalation — p 29, 44-45
12. Exercising rights and responsibilities — p 59-64

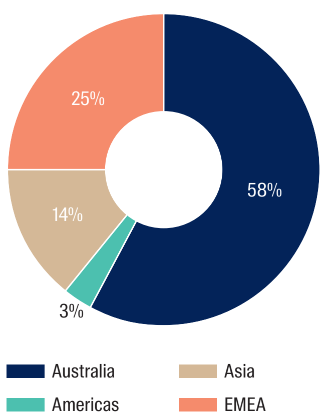
About us

We are a global asset manager that offers its clients high quality, long-term investment capabilities. We bring together 17 independent, specialist investment teams who share a commitment to responsible, sustainable investment.

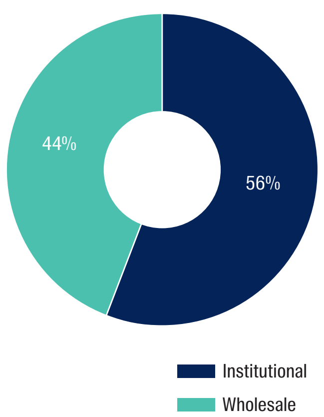
Together, we offer deep expertise across global and regional equities, cash and fixed income, infrastructure and multi-asset solutions. As of 31 December 2020, we managed USD 176.6bn of assets on behalf of institutional investors, pension funds, wholesale distributors and platforms, and financial advisers and their clients.

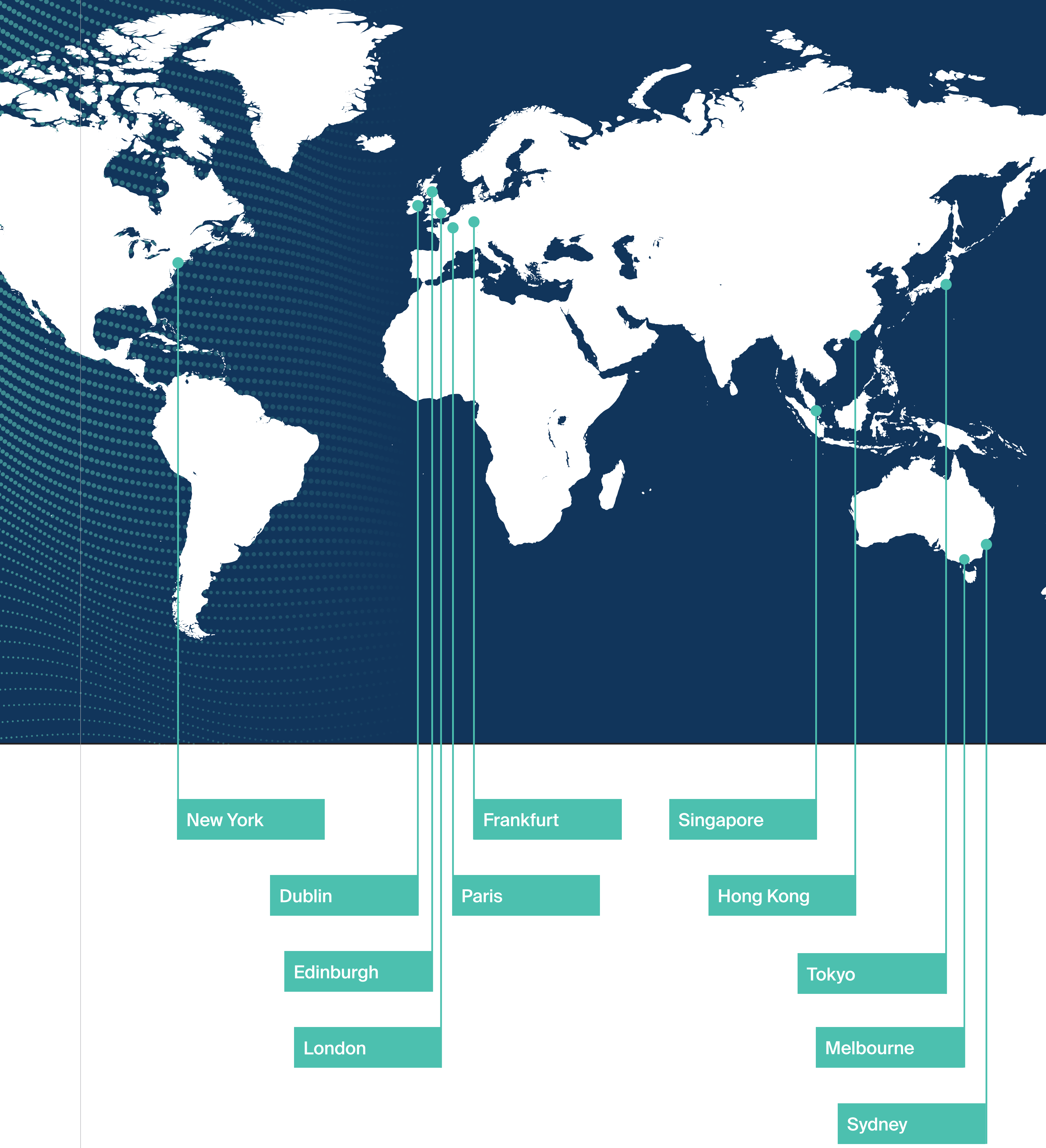
Our global reach

AUM by region



AUM by client segment





FSI has been managing money with a long-term outlook for more than 30 years

We bring together independent teams of active, specialist investors in an affiliate style structure. All our investment teams operate with discrete investment autonomy and investment processes, in line with their investment objectives. Their processes include team specific and corporate governance voting practices. This tailored approach allows the teams to make judgement calls in line with their fund objectives, while still benefiting from the support and governance structures provided by the wider business.

Our affiliate style structure brings together:

- FSSA Investment Managers: an Asian and global emerging markets equities investor
- Realindex Investments: a systematic equities manager
- Stewart Investors: a pioneer in emerging market equities and sustainable investing

Each is committed to RI and stewardship.

FSI has been managing money with a long-term outlook for more than 30 years. Our focus has been on preserving capital and performance through market cycles, rather than trying to achieve short-term gains. We make sure we deliver on this by offering funds that are actively managed for the long term.

You'll see an overview of our assets under management (AUM), by nearest whole percentage of funds under management, in the following table.

Our global investment capabilities by AUM

31 December 2020 (bn)	AUD	USD
Australian Equities		
Growth	13.3	10.3
Small and Mid-Cap Companies	3.1	2.4
Emerging Companies	0.9	0.7
Equity Income	0.4	0.3
Total	**17.8**	**13.7**
FSSA Investment Managers		
Asia Pacific, Global EM, Greater China, India and Japan		
Total	**45.7**	**35.3**
Stewart Investors		
Asia Pacific, Global EM, Sustainability, Worldwide		
Total	**30.6**	**23.6**
Real Estate and Infrastructure		
Global Property Securities	2.0	1.6
Global Listed Infrastructure	10.6	8.2
Unlisted Infrastructure*	13.5	10.4
Total	**26.1**	**20.2**
Fixed Income		
Emerging Markets Debt & Asia Fixed Income	5.8	4.5
Global Fixed Income	0.9	0.7
Global Credit	1.7	1.3
High Yield	0.2	0.2
Australian Fixed Income	14.0	10.8
Cash Management	56.2	43.4
Total	**78.8**	**60.8**
Multi Asset		
Objective-based investing		
Advisory services		
Total**	**7.6**	**5.8**
Systematic Equities		
Realindex		
Total	**29.2**	**22.6**
Total AUM	**228.9**	**176.6**

*Based on Nov 2020 closing AUM and excludes any undrawn commitments. **AUD 7.0bn / USD 5.4bn invested in other FSI capabilities

Source: First Sentier Investors as at 31 December 2020. Numbers may not add up due to rounding.

A shared purpose and culture that benefit the economy, the environment and society

Our shared purpose is to deliver sustainable investment success for our clients, employees, shareholder and wider society. Our vision is to provide world-leading investment expertise and client solutions. In this, we're led by RI principles based on our core company values: Care, Openness, Collaboration and Dedication.

Our shared values support our commitment to RI

Care

We care about our clients, society and each other

By fostering a culture of care internally, we will genuinely care for our clients and society – this is a key differentiator for our business

Openness

We are open with each other and to different ways of thinking

We recognise the benefits of effective communication, and we openly challenge ourselves to do better

Collaboration

We collaborate to deliver the best solutions

We recognise the business benefits of collaboration within and between teams. It's important that we collaborate with purpose to achieve the best outcomes for our clients

Dedication

We are dedicated to being experts in our respective fields

Our expertise is what differentiates us, and our dedication to being the best is what our clients value about us

Ongoing engagement with the companies we invest in improves our understanding of the issues our investments face. It also helps us drive improvements – and, ultimately, protect or enhance the value of our investments

We know our individual and collective investment decisions are far-reaching. We believe that:

- ESG issues are sources of long-term risk and return, so weighing them carefully leads to better analysis and investment decisions
- Using ownership rights can increase performance and lower risk over time. Assets with well-managed ESG factors will produce higher risk-adjusted returns over the long term
- Integrating ESG into all investment decisions enhances the quality of our investment processes
- Poorly managed ESG issues create a negative long-term material impact on society and the environment

We share a commitment to achieving the best possible outcomes over the long term for our clients. Our culture prioritises acting in our clients' best interests and we structure our business to align our interests with theirs. Our principles of stewardship and RI are critical to maintaining and enhancing this culture.

We believe in active engagement and active ownership

Our commitment to RI and stewardship runs through all our investment capabilities. Each of our 17 investment teams is a specialist in its respective field and sets its own investment philosophies and processes. In particular, all teams believe that ESG issues affect investment value, and that, as a leading global institutional investor, we can achieve better long-term investment outcomes through active engagement and by exercising the equity ownership rights we hold on our clients' behalf.

Effective, responsible active ownership has long been part of our fundamental approach to investment. We actively exercise voting rights and engage on issues related to factors like strategy, risk, performance, climate change, human rights and governance. You can read more about our voting record on page 59.

Ongoing engagement with the companies we invest in improves our understanding of the issues our investments face. It also helps us drive improvements – and, ultimately, protect or enhance the value of our investments.

A shared purpose and culture that benefit the economy, the environment and society

We're strengthening our culture of stewardship

RI is a fundamental part of every employee's training and development from day one. To boost employee engagement in RI across our entire workforce, we set up a Responsible Investment Learning & Development Group. It focuses on learning and development across four key parts of our business:

1. Leadership team and non-executive directors
2. Investment teams
3. Distribution, marketing and product teams
4. Operational teams

For example, through a specialist training provider, the UK-based Independent Non-Executive Directors for our UK subsidiaries completed a set of online modules specific to the Sustainable Development Goals. Throughout the year, we also ran an internal series of virtual seminars on COVID-19, the origins of the virus, vaccines and a possible world post-pandemic. These were conducted by Professor David Kipling, Biogerontologist at Cardiff University, in conjunction with our Global Head of RI.

We held many other training sessions on ESG, RI and Stewardship during 2020. These include:

- An introduction to our revised Responsible Investment and Stewardship Principles and Policy
- An introduction to modern slavery, biodiversity loss and pandemic risks, EU sustainable investment regulations, the UK Stewardship Code 2020, ESG fund labelling systems and measuring climate risk
- Modern Slavery Toolkit implementation training
- Modern slavery update
- Climate risk and reporting
- Net zero investment session
- A briefing from the leaders of the UK Investment Consultants Sustainability Working Group
- Regular, informal 'Lunch and Learn' training and information sharing sessions. These cover a range of topics such as Stewardship and Governance Regulations, ESG market trends, investment team process (including how ESG factors are integrated into the investment process) and diversity and inclusion. Facilitated by internal or external specialists, these sessions are highly interactive
- Outcomes-based engagement session
- Industry collaboration. We are also members of a number of industry bodies such as the UK Investment Association, UKSIF and EUROSIF which offer industry-wide training and information on RI and stewardship. We encourage all our employees to attend these forums as part of their continuing professional development

As well as benefiting from our formal training programme, our investment teams get practical training by taking part in our ESG Impacts Committee and having regular contact with our specialist RI team. There's more information on our ESG Impacts Committee on pages 16 and 18.

We set high RI expectations

We continue to brief our recruitment agencies on our commitment to RI. This is a prominent section on all the roles we advertise internally and externally. We also build RI into our on-boarding processes for new starters.

We believe that RI and stewardship training is important across all levels of the organisation, not just investment professionals. So our 2021 RI Strategy has a dedicated Learning and Development pillar that aims to embed RI and stewardship skills and awareness among leadership, investment and non-investment professionals. We believe this approach will generate positive behaviours and empower employees to become key RI ambassadors for the business.

In our first Responsible Investment report in 2007, we stated that one of the business benefits of signing up to the Principles for Responsible Investment was greater engagement from employees across our firm. This was true regardless of country or investment expertise. This level of engagement has remained unchanged ever since.

In 2019, we published our Global Code of Conduct. This reinforces our commitment to operating with the highest standards of professionalism to protect our investors' interests, and to behave ethically and responsibly as a firm. The Code sets out what we expect from everyone who works day to day with our clients and other stakeholders. Our people confirm they will maintain our standards when they join the business, and annually from then on.

A shared purpose and culture that benefit the economy, the environment and society

Our RI Strategy has a dedicated Learning and Development pillar that aims to embed RI and stewardship skills and awareness among leadership, investment and non-investment professionals

We harness diversity in all forms

As investors, we encourage the companies we invest in on behalf of our clients to achieve greater diversity. We believe this is important in their corporate decision-making, long-term performance, and ability to deliver sustainable and attractive long-term investment returns.

We recognise that different attributes, life experiences, backgrounds and preferences including gender, ethnicity, disability, age, cognitive diversity, sexual orientation, family status and educational experience lead to genuine diversity that can help achieve better outcomes for our clients.

That's why diversity and inclusion are embedded throughout our organisation. We recently launched our Diversity and Inclusion Commitment, which sets out our approach. It reinforces our ongoing commitment beyond our transition to new owners Mitsubishi UFJ. It also gives us a platform for discussions around what we've learnt about diversity and inclusion.

The asset management industry continues to face challenges relating to the underrepresentation of a diverse workforce, particularly at senior levels and in senior investment management roles.

Achieving greater diversity across different areas and levels of our business is arguably even more important if we're to stay true to our values of responsible investment and stewardship. We know it will take time to bring about sustainable change in our business, but we're committed to making that a priority.

In 2020, we made progress on a number of key areas within diversity and inclusion, which we continue to build on. For example:

- We signed up to the #100Blackinterns programme and look forward to playing a key part
- We continue to be an active member of InterInvest, helping to drive LGBT+ equality and inclusion across the UK investment industry as well as promoting allyship
- We continue our corporate partnership with Aspierations, building awareness of cognitive diversity, and supporting individuals with neurodiverse backgrounds
- Through our charitable foundation, we encourage all staff to volunteer their time, offering them generous volunteering leave to spend with individual charities, or take up opportunities offered by our charity partnerships
- Through our charity partner Create, we've funded a series of art therapy workshops for adult carers in London and Scotland, most of them female, unevenly affected by the pandemic and in an extended period of shielding/lockdown

We're working to improve female representation within our firm, as well as engaging with companies about the number of women they have in leadership roles. At the end of December 2020, women represented 24% of our investment management roles. This was a two percentage point increase from the previous year.

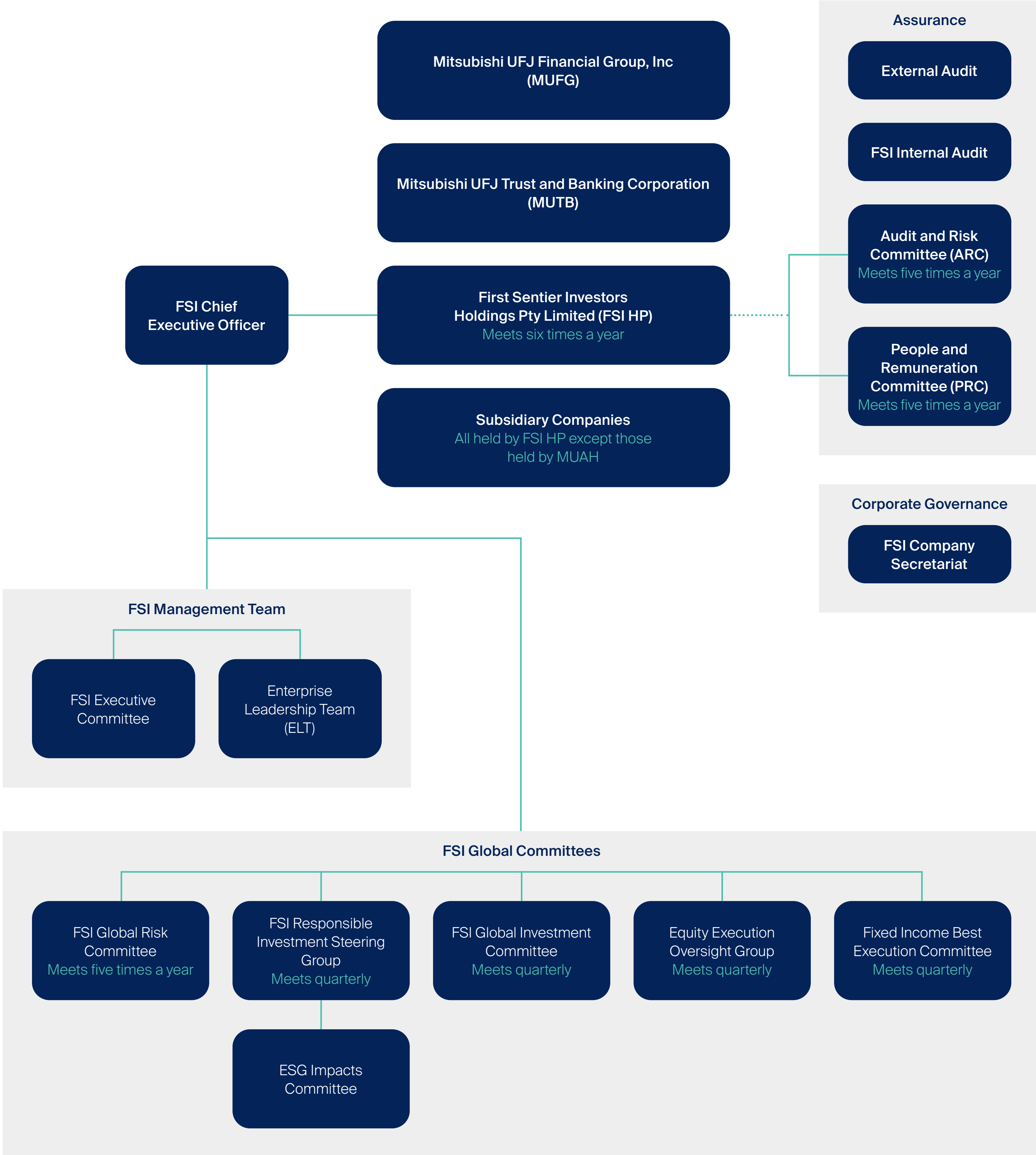
The female composition of our Executive Leadership Team and of our senior professionals has increased over the last 12 months by 2%. At a portfolio level, many investment teams are actively monitoring gender diversity, including it in their investment criteria and engaging with companies they believe to be falling short.

We've also invested time in rebalancing our subsidiary board membership numbers. This is an area in which women can take part outside their defined areas of expertise. By gaining exposure to more senior business representatives and adding more variety to the skills on our subsidiary boards, they benefit themselves, our business and our clients.

Strong self-governance, effective policies and clear processes

We've built our stewardship and responsible investment strategy on a strong governance framework. This framework helps us align all our practices and initiatives across our entire firm. It also enables us to make the most of the diverse resources and expertise of our independent teams. Ultimately, it equips us to make informed decisions that improve outcomes for clients.

Our Governance framework is wide-ranging and in-depth



RI Steering Group

Chaired by our CEO Mark Steinberg, this group meets quarterly. It includes our CIO (Chief Investment Officer) and investment team heads. The group sets our top-down direction and strategy for RI and approves policy framework.

Specialist RI Team

This team engages with and coordinates the entire business to deliver the RI strategy. Its work involves a huge amount of internal communication and training globally across many topic areas.

Global Investment Committee

Chaired by our CEO and including our CIO, this committee meets quarterly. It monitors investment risks and also receives reports on ESG risks and other issues for investment teams and portfolios.

ESG Impacts Committee

This knowledge-sharing forum focuses on issues – like the climate emergency and human rights risks – that cut across multiple investment teams. It identifies research areas that will deepen our understanding of how ESG issues affect investment and business performance. It's made up of representatives from each investment team. The RI representatives are a key pillar of our governance strategy. The teams they represent also integrate ESG into their investment processes in various different ways.

Strong self-governance, effective policies and clear processes

Specialist RI Team

Will Oulton
Global Head of Responsible Investment

Based in the UK, Will defines and delivers FSI's RI and stewardship strategy globally. It's his responsibility to advance our understanding of how ESG factors affect long-term investment value. He also develops our thought leadership programmes and manages the RI Governance structure for the business.

Before joining us, Will was Head of Responsible Investment for Mercer Investments across EMEA, advising institutional asset owners on environmental, social and corporate governance. Before that, he was Director of Responsible Investment at FTSE Group, leading the development of FTSE's global sustainability services. He has nearly 20 years' experience in sustainable and responsible investment.

In December 2015, he was appointed Chairman of the European Sustainable Investment Forum (EUROSIF). He is a fellow of the Royal Society of Arts, an Honorary Associate Professor at Nottingham University Business School's International Centre for Corporate Social Responsibility, Expert Panel Member of the Prince's Accounting for Sustainability Project (A4S), and sits on a number of investment industry advisory boards and committees. More recently, he became a Trustee Director of the UK's Marine Conservation Society.

Ken Mitsutani
Head of Responsible Investment, EMEA

Ken supports EMEA-based investment professionals, as well as distribution and client-facing teams, to promote FSI's RI capabilities. He joined us from Mitsubishi UFJ Trust and Banking Corporation (MUTB) where he held a variety of investment and business roles. During a career that spans more than 20 years, he's been particularly focused on asset management businesses, mainly in the global field. Most recently, Ken was Chief Manager of the Global Asset Management Business Division based in Tokyo. Ken holds a Bachelor of Economics from The University of Tokyo.

Kate Turner
Responsible Investment Specialist, APAC

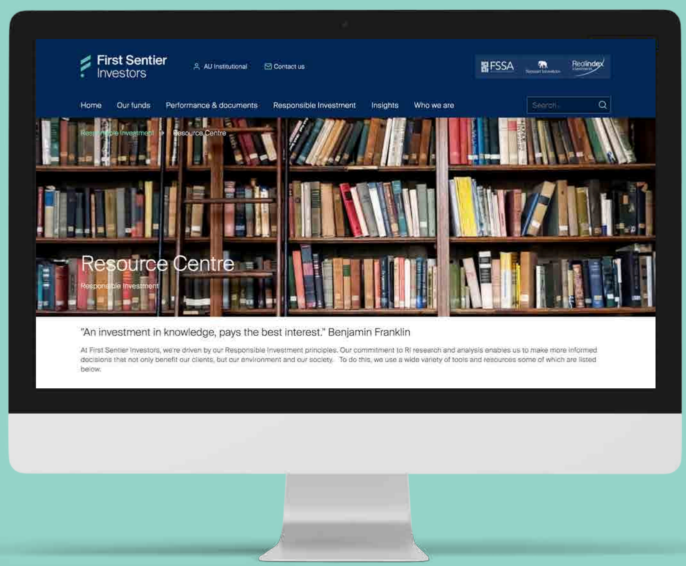
Kate supports the governance of RI and the integration of ESG factors across the organisation. She engages with clients and stakeholders in Australia and New Zealand to communicate our approach to RI. Before she joined our team, Kate was an Associate Director at Sustainalytics, leading its business in Australia and New Zealand. She also held roles at ICBC Standard Bank Plc in London and Baker McKenzie in Sydney. Kate holds a Bachelor of Laws degree and a Bachelor of Arts degree in International Studies with First Class Honours and University Medal from the University of Technology, Sydney.

Research areas identified by our ESG Impacts Committee

Our ESG Impacts Committee was first convened in 2013. Over time, it's produced research and informed investment teams on, among others, the following areas:

- Climate change
  - Physical risks of climate change
  - Regulatory intervention on emissions
  - Business transition and stranded asset risk
  - Director duties and legal risk
  - Licence to operate and reputational risk
- Remuneration
- Human rights
- Modern slavery

You can find some of the key research outputs in the "Resource Centre" under "Responsible Investment" on our website.



Strong self-governance, effective policies and clear processes

Internal Audit assurance

Our Internal Audit team assesses stewardship activity. It checks how each investment team aligns with our RI Policy and how our control processes monitor alignment with our RI Policy. Then it reports its findings to relevant stakeholders across the firm so we can continuously improve

We improved our suite of RI policies

Key to good governance are the policies that underpin it. Our policies set clear expectations for our people. We've set out our full set of policies on our website and in our Global Responsible Investment and Stewardship Principles and Policy.

This one consolidated document builds on and improves our previous suite of RI policies. It explains our approach to RI and what that means to us. It includes a set of guiding principles for our investment teams as well as specific requirements for ESG integration, corporate engagement, proxy voting and investment screens. It also covers our approach to issues such as the climate emergency, deforestation, the Sustainable Development Goals, and human rights and modern slavery.

After extensive consultation with the ESG Impacts Committee and other key stakeholders in the business, our RI Steering Group approved the Global Responsible Investment and Stewardship Principles and Policy in April 2020. We'll update it annually.

We reward behaviours that reinforce our culture

Our Remuneration Policy is designed to reward employees for protecting and promoting the interests of our clients and shareholder. Specifically, it outlines a remuneration framework that:

- meets all applicable regulatory and legal requirements
- aligns with our vision, values and strategy
- aligns with the interests of our clients, employees and the community
- encourages responsible behaviour that supports long-term sustainability
- promotes sound, effective risk management (including the management of sustainability risks)
- avoids conflicts of interest
- supports a diverse and inclusive workforce

View our full set of policies on our website under "Responsible Investment". Look for "Policies and Industry Collaboration".

Strong self-governance, effective policies and clear processes

We actively manage all risks associated with measuring and delivering short-term and long-term performance. We carefully manage all activities within our risk framework. We review, and may reduce, individual variable remuneration outcomes in the light of any associated performance and risk (including sustainability risk) outcomes.

We assess all our employees against risk and behavioural standards, and award deferred incentives if they've appropriately demonstrated our values. Our assessment makes sure that we base variable remuneration outcomes on both what was achieved (goals) and how it was achieved (values), and we apply adjustments for risk outcomes where necessary. We also assess how well employees have lived up to our RI and Stewardship Principles.

Integral to our annual remuneration governance process is reviewing short-term and long-term remuneration decisions through the lens of gender equity. Approvals depend on proven equitable outcomes.

We incentivise performance that integrates stewardship

We pay employees an annual salary and a discretionary bonus. We benchmark salaries annually to make sure they're competitive. The discretionary bonus rewards employees for exceeding their objectives up to a percentage multiple of their base salary.

We reward our investment professionals for outcomes based on investment performance and behaviours. The general criteria we use to calculate overall bonus payments for investment professionals are:

- Performance versus benchmark and competitor outcomes
- Achieving broader corporate objectives
- Achieving individual objectives including demonstrating our values

Many investment professionals also benefit from long-term incentives that align their remuneration with business performance.

The long-term incentives of most investment professionals are structured through co-investment instruments aligned to the underlying team funds. This arrangement encourages long-term alignment with clients' interests. It also incentivises investment professionals to reinforce the team's investment philosophies and processes, which include assessing the sustainability risks that may affect investment performance.

All long-term incentive plans contain malus provisions. This allows us to reduce rewards, including to zero, for unsatisfactory performance, behaviours, risk management or compliance relevant to the role.

All our employees must understand conflicts of interest. Every year, they take part in online training that details how conflicts may occur and what to do if they identify one

Strong self-governance, effective policies and clear processes

Our performance reviews assess commitment to sustainability

As part of our commitment to employees' learning and development, we encourage regular and open feedback throughout the year in addition to a formal annual performance review. This process gives both the employee and manager valuable opportunities to discuss performance positively and constructively, and includes a forum in which to agree goals and jointly create a development plan.

The formal review process includes:

- Risk assessment: to assess an employee's ability to manage risk effectively; and/or where a negative risk outcome occurred, to find out whether it stemmed from individual actions and/or behaviours
- Values assessment: to assess an employee's behaviour across the values of Care, Collaboration, Dedication and Openness
- Business outcomes: to assess key performance indicators related to clients, business and people, as well as role-specific metrics

Our conflicts of interest policy is available on our website "Responsible Investment". Look for "Policies and Industry Collaboration".

We have a clear policy and process for managing conflict

Conflicts of interest crop up when different stakeholders have different interests. These conflicts may be between different business units and affiliates of FSI, with clients and external parties, or involve the personal conflicts of employees. There may also be conflicts between FSI and our shareholder, Mitsubishi UFJ Trust and Banking Corporation, a wholly-owned subsidiary of Mitsubishi UFJ Financial Group, Inc.

There may be a conflict of interest if:

- FSI's interest conflicts with its duty to its clients
- FSI's interest to one client conflicts with its duty to another
- FSI's duty of confidentiality to one party conflicts with its undivided loyalty to all its clients

Every conflict of interest needs to be managed fairly. In recognition of this, we maintain and apply a comprehensive conflicts of interest policy. This policy outlines how we define, monitor, escalate and resolve potential conflicts. We update it regularly.

All our employees must understand conflicts of interest. Every year, they take part in online training that details how conflicts may occur and what to do if they identify one.

All employees follow a clear, structured, three-step approach:

1. **Identify**
   Understand what a conflict is and how it can arise in day-to-day activities
2. **Act**
   Act in a way that aligns with the principles set out in the policies and procedures we've developed to manage identified conflicts
3. **Report**
   Record all actual and potential conflicts in their business unit's conflicts of interest registers

Our global Regulatory Compliance teams help identify, monitor and record actual and potential conflicts of interest. If one is identified, we act appropriately to make sure our clients are treated fairly. We may:

- **Disclose the conflict of interest to clients**
  For instance, in investment management agreements where we disclose that we act for more than one client and we will treat each fairly
- **Rely on a policy of independence**
  For instance, if we're acting for both sides of a transaction (i.e. 'agency cross'), we'll make sure that we apply normal commercial terms to the transaction
- **Build internal walls**
  For instance, we'll stop the transfer of information internally by setting up information barriers
- **Decline to act for a client, if necessary**

Strong self-governance, effective policies and clear processes

We ban investment in certain sectors

If necessary, we may impose a company-wide ban on investment (both equity and debt) in certain sectors or organisations. The RI Steering Group may decide that the activities of a specific organisation or sector conflict with our RI commitments. In doing so, the group will also take our fiduciary duty into account, along with client sentiment and long-term sustainability and investment risk.

We don't generally use firm-level negative screens in our approach to RI. Instead, we may choose to screen out individual products or apply specific criteria based on individual client mandates.

However, a key part of our RI approach includes commitments to:

- Support and uphold fundamental principles of human rights
- Support international norms and standards enshrined in widely adopted treaties, conventions and codes of practice
- Uphold the highest standards of environmental stewardship

We've already imposed investment bans in two critical sectors:

- The manufacture of certain types of controversial weapons (anti-personnel mines, cluster weapons, biological and chemical weapons, depleted uranium, nuclear weapons and white phosphorus munitions)
- The manufacture of cigarettes and other tobacco products

We also exclude sanctioned and very high-risk countries, companies based in those countries and individuals who work with or operate from those countries. We have a two-tier system that completely blocks some countries (such as Iran, North Korea and Syria) and heavily restricts others.

Strong self-governance, effective policies and clear processes

We source ESG information from a wide range of firms

We subscribe to ESG research from a series of third-party providers (currently Sustainalytics, MSCI and Reprisk). This information is used by different teams in different ways – there's no one standard approach to ESG integration across the firm. We integrate ESG research and data from our external research providers into our data warehouse and investment systems, including into our ESG Portfolio Monitor tool. We also make this data available to investment teams through third-party systems that the teams use wherever possible, such as Factset, Aladdin and Bloomberg.

We engage with our research providers on the quality of their research and give feedback where we disagree with a finding. We also work closely with NGOs to source and use publicly available data, such as the Global Slavery Index and Know the Chain benchmark data, which are key inputs into our modern slavery risk assessments.

While this information is available to and widely used by our teams, our primary information source is the analysis our investment teams carry out. For our active equity teams, a key component of this analysis is company engagement.

We use trusted proxy advisers

We use a selection of proxy voting advisers (currently Glass Lewis and Ownership Matters) to advise on and deliver our proxy votes. However, our investment teams retain full control of their voting decisions and may not always follow the recommendations these advisers issue. We regularly monitor how our proxy voting advisers perform, reviewing them on: organisation, security and cyber security, compliance and risk, governance, training and competency, disaster recovery, service delivery and business ethics.

The head of each asset class or delegate is responsible for reviewing all company resolutions and making an appropriate and consistent recommendation in line with the corporate governance guidelines and principles. The aim is to ensure we're voting intelligently and independently without too much divergence in our approach.

We also work closely with NGOs to source and use publicly available data, such as the Global Slavery Index and Know the Chain benchmark data, which are key inputs into our modern slavery risk assessments

Flexing our approach to ESG issues

Given the variety of asset classes we manage, the number of countries we operate across and the size of our holdings, it's essential we apply a bespoke approach to assessing each individual investment.

That's why each listed equity team has its own tailored process for identifying and assessing the relevance and materiality of ESG issues for its specific asset classes. The teams always focus on material ESG issues that could affect investment value, particularly over the long term.

Our teams tailor their RI approach around three core factors

Active ownership, ESG integration and screening help boost our transparency and accountability.

The way that each investment team incorporates these factors into its investment process has evolved over time. Their diverse approaches allow us to share ideas, develop our knowledge and learn from each other's successes and mistakes. This is a key strength of our overall business.

We report on our approach and progress both internally to the groups and committees already outlined, and externally – mainly through our annual global Responsible Investment Report, on our website and through relevant social media channels.

Active ownership
Company engagement
Proxy voting
Shareholder action

ESG integration
The systematic and explicit inclusion of ESG factors into financial analysis

Screening
Exclusions of sectors, companies or practices

How each team approaches ESG issues

For all active equity teams, company engagement is a key source of insights into ESG risks and opportunities. The relevant company analyst assesses these insights, alongside the best available third-party ESG research, and incorporates them into stock notes or reviews. In this way, insights influence company valuations.

Some teams assign specific ESG scores. Others incorporate their assessment into a broader view of the management and quality of the company. All active equity teams meet regularly to discuss company assessments, including ESG factors. For listed equity investors, proxy voting rights are an important asset. Exercising these rights is at the core of our stewardship responsibilities. We detail these responsibilities later on in this report.

Integration and engagement reinforce each other. Company analysis drives engagement and the results of engagement influence the analysis. This is why we don't separate proxy voting, engagement or ESG research into specialist functions.

Here, each investment team outlines its own tailored approach.

Equities

Australian Equities, Growth

We identify ESG risks mainly by using our rigorous company engagement programme. We weigh the assessment from our engagements equally with quantitative measures to generate a proprietary ESG score. Analysts incorporate this score, along with fundamental analysis, to decide stock ratings (Strong Buy/Buy/Hold/Sell/Strong Sell). We believe that ownership and engaging with a company on its ESG performance and disclosures is more effective and will add more value than negative screens.

Australian Equity Income

We partner with other FSI investment teams, drawing on shared analyst research that includes relevant ESG issues.

Australian Small and Mid-Cap Companies

Sustainability is one of the six key criteria we use to evaluate companies. This means that ESG factors influence all our investment decisions. We often raise ESG issues with senior management and board members during our extensive engagement with companies. These discussions have a significant impact on our view of an investment. If we believe these factors have a material impact on profitability, we quantify them. They can then influence other factors, particularly a company's valuation and financials. This ultimately influences the active positioning of stocks in the portfolio.

FSSA Investment Managers

To us, ESG and sustainability aren't just labels. They're a set of values by which we operate. Our investment universe consists of countries that are among the most vulnerable to environmental challenges, suffer from severe inequality, and can be highly susceptible to corruption. For these reasons, since our inception, we've focused on identifying quality companies and management teams that address these challenges head on, and so deliver better outcomes for all stakeholders.

We invest in companies that contribute meaningfully to sustainable outcomes and that have the management foresight, technology and ideas to address changing societal and environmental expectations. Companies that don't deliver sustainable value for their customers, employees, suppliers and the larger community are unlikely, in our view, to be rewarding long-term investments. Each of our analysts is responsible for identifying ESG opportunities and risks and incorporating them into all bottom-up company analysis, valuations, stock selection and engagement.

Flexing our approach to ESG issues

> ‘For us, sustainability must be core to a company’s business model, not an optional extra’
>
> Stewart Investors

Global Listed Infrastructure

Infrastructure companies have major service obligations and are morally accountable to the communities they operate in. So ESG issues are fundamental to them. We’ve always incorporated ESG-related criteria fully into our investment process. In fact, they account for 25% of the quality score we assign when considering an investment. Engaging with companies to encourage ESG best practice for the benefit of investors is key to our investment approach.

Global Property Securities

RI has been deeply ingrained in our culture for over a decade. ESG considerations are directly embedded into two parts of our investment process. Firstly, we aim to mitigate ESG risks in the initial screening of our investment universe. Secondly, ESG factors feed directly into our valuation methodology, so that securities with better ESG scores achieve higher intrinsic valuations and are therefore favoured in our stock selection process. We do use third-party research. However, given our in-depth understanding of the global property securities sector, in-house research and direct engagement with companies remain our most important reference for ESG information.

Realindex

RI and stewardship principles are vital to the way we approach investment management and are an area of ongoing research. For us, ESG integration falls into three key areas:

1. Encourage companies to manage their ESG risks and opportunities more effectively through proxy voting and engagement
2. Understand the ESG risks in our portfolios
3. Integrate ESG factors into our investment processes to enhance performance and/or manage risk

Stewart Investors

At the heart of our philosophy is the principle of stewardship – careful, considered and responsible management of our clients’ funds. We articulate this in our Hippocratic Oath. Our investment team is responsible for all company analysis including ESG, identifying engagement priorities, monitoring and engaging our investments, and making all voting decisions. Sustainability factors are integral to our investment and stock-picking process. We evaluate the sustainability of companies based on fundamental bottom-up research. For us, sustainability must be core to a company’s business model, not an optional extra.

Flexing our approach to ESG issues

Fixed Income and Credit

Experience tells us that ESG issues can significantly affect default risk. History proves that poor corporate and regulatory governance have contributed to most corporate failures. That’s why we identify ESG risks as part of our bottom-up credit research. This helps us manage default risks in bond portfolios. Our ESG assessment has a major impact on the internal credit ratings we give to every credit we review. And this, in turn, influences how we construct our portfolios.

ESG factors are also important to our position-sizing discipline. Our understanding of potential ESG drawdown risks, for instance, has been critical to our Emerging Debt team’s ability to outperform in down markets.

Multi-Asset Solutions

We integrate our approach to RI within the investment process of the objective-based funds, and can incorporate it into bespoke mandates. As well as encompassing ESG considerations, our RI approach uses ethical screens. These are based on nine themes which can exclude specific ‘red flag’ companies or industries, such as those involved in fossil fuels. We apply these screens consistently across all asset classes according to these themes. Wherever we can, we also incorporate ESG considerations when voting on all company resolutions.

Real Assets

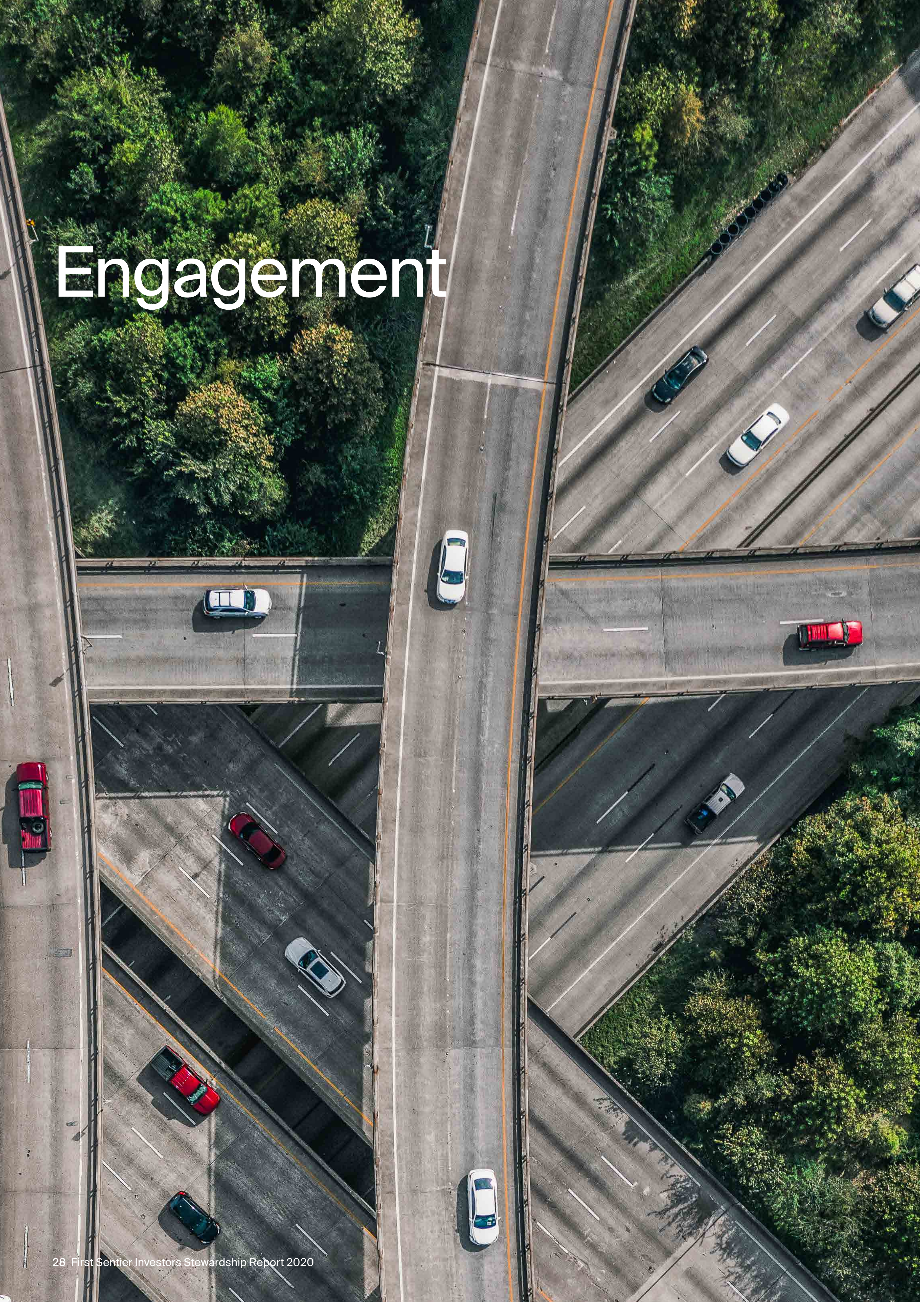
Direct Infrastructure

A big advantage for us is being able to engage directly with our portfolio companies at board level and/or via workshops with managers. By having board representation and/or majority ownership in all of the portfolio companies we invest in, we can closely monitor ESG performance, develop initiatives and drive cultural change.

We apply five minimum standards to all assets in our portfolio. These involve:

1. Improving corporate governance standards
2. Improving health and safety performance
3. Reducing greenhouse gas emissions and improving other environmental standards
4. Increasing equality and representation
5. Encouraging apprenticeship and continuous development

We also encourage each portfolio company to set its own targets and action plans beyond these minimum standards, and report on progress to the board. The focus is on continuous improvement.



Engagement

For all active equity teams, company engagement is a key source of insight into ESG risks and opportunities. Analysing and assessing a company's ESG issues help us identify risks that may not show up in its financial statement. This, coupled with our other relative-value drivers, helps us give a much more accurate and informed view of default risk than is often available in the balance sheet.

We have a clear policy for engagement and escalation

Where we identify a potential adverse impact on a company's sustainability, our investment teams engage with that company in line with our commitments under section 2.2.1 of our Responsible Investment and Stewardship Policy and Principles. Our teams can engage directly or in collaboration with other investment institutions.

If the engagement doesn't mitigate or reduce the adverse impact on sustainability, the investment teams have a number of escalation options:

- Report the issue to the RI team, ESG Impacts Committee, Global Investment Committee and RI Steering Group
- Write to or meet with the chairperson or lead independent director
- Vote against directors they feel are not providing appropriate oversight
- Wide engagement with other investors
- Make their views public
- Reduce or divest the holding of the issuer

Here's how a few of our investment teams have put our group-wide engagement and escalation policy into action.

A copy of our Responsible Investment and Stewardship Policy and Principles is available on our website under "Responsible Investment". Look for "Policies and Industry Collaboration".

Asian Fixed Income

We identify engagement issues after thorough company research. Responsible credit investors have found effective ESG engagement with issuers challenging. This is partly due to the contractual nature of bond investments, and the fact that most securities are bought on secondary markets. We always ask primary issuers relevant questions when we meet with them. In addition, as our brokers are up to speed with our ESG focus, they make ESG discussions happen wherever they can. We're continually building on this approach.

Direct Infrastructure

We have the distinct advantage of being able to engage directly with our portfolio companies via our board representation and/or workshops with management. This direct involvement not only allows us to drive cultural change and set ESG KPIs. It also enables us to maintain an open dialogue between managers and owners so that long-term value creation and protection are aligned. We regularly run workshops and committees to carry out deep-dive analysis; and we debate opportunities and new initiatives. In a normal year, we also visit business sites in our capacity as owner, board member and/or board committee member.

FSSA Investment Managers

We identify engagement issues through our investment research, analysts' meetings and the ESG news platform. Company engagement is critical in helping us understand a company's history, culture, long-term strategy and governance structure. As long-term shareholders, we focus on identifying companies that are committed to sustainable outcomes. Through active engagement, we can raise legitimate concerns, persuade managers to address ESG issues and enhance portfolio performance.

Global Property Securities

As firm believers in investor rights, we take a proactive stance on ESG issues, especially when it comes to corporate governance. During our real estate investment trust (REIT)/company meetings, we typically discuss any changes to the REIT's/company's ESG considerations. We give our views on how the REIT/company rates versus its peers. Whenever we think it's appropriate – for instance, if we believe that ESG activity is particularly weak – we talk directly to CEOs and board members and encourage them to drive change.

Engagement

How our teams capture ESG engagement

Historically, we've found it challenging to report on how we engage with issuers beyond detailing it in a case study. This is partly because engagement is often part and parcel of the long-term relationships our teams develop with companies; and partly because each team operates independently and maintains its own meeting databases.

A number of teams have improved how they capture company engagement. Here are a few examples.

Fixed Income

These teams have an assessment process for ESG issues that influences their view on risk of a particular security and flags concerns. For emerging markets debt, the process uses a proprietary six-factor model, while for other securities, it's the ESG score and internal credit rating. Their engagement spans counterparties, corporates, governments and supranational issuers.

Global Credit

Analysts identify ESG risks during their bottom-up credit research, analyse them through our own risk framework and generate a proprietary ESG ranking. They then weigh these risks alongside their own research plus a range of other drivers of price-focused risk.

FSSA Investment Managers and Stewart Investors

These teams have hired dedicated engagement administrators who book meetings, capture notes and flag follow-ups for the teams to action.

Case study

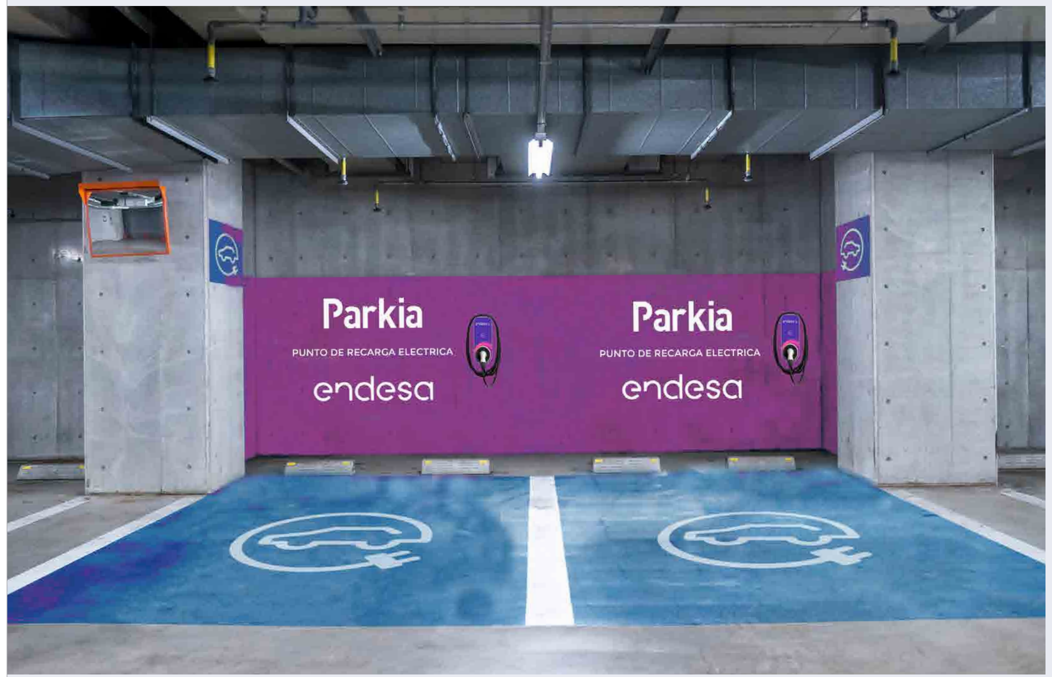
Parkia – driving ESG initiatives

Team: Direct Infrastructure

Relevant SDG: Gender Equality, Sustainable Cities and Communities, Climate Action

Parkia is an off-street car park operator. It owns 72 car parks across 36 cities in Spain and Andorra. Our European Direct Infrastructure Strategy acquired the company in 2016. Since then, it's grown rapidly, adding 17 more sites. But 2020 was a challenging year for Parkia, with COVID-19 restrictions on movement reducing demand for parking. There was also turnover in the senior management team.

Our representatives on Parkia's board were deeply embedded in the company throughout the year, working closely with management on a number of fronts. Together, they drove key ESG initiatives and significant achievements.



These included:

- **Installing electric vehicle charging stations in every car park**
  This is the result of a two-year collaboration between Parkia and Endesa, a Spanish utility company. Parkia can now offer its subscribers charging services through a fixed-fee contract that supports the transition from conventional cars to electric vehicles
- **Obtaining certification in three key ISO standards**
  Parkia worked with an external consultant to obtain certifications in Quality Management (ISO 9001), Environmental Management (ISO 14001) and Occupational Health and Safety (ISO 45001). The company implemented ISO 9001 in December 2020, with ISO 14001 and 45001 on track to follow in early 2021
- **Becoming a more inclusive business**
  Parkia completed its first gender representation report in 2020 and devised a Gender Equality Plan for implementation in 2021. Targets and initiatives include a commitment to promote hiring women and young people in the workforce and to increase their numbers in the company. There will also be sensitisation days for employees and dedicated parking spaces for vulnerable groups
- **Launching the first customer satisfaction survey**
  In November 2020, Parkia received more than 539 responses to a survey of existing subscribers. Results were positive, with a score of 4 out of 5 for general customer satisfaction with its services, and 4.4 out of 5 for the quality of its customer support
- **Working to embed a strong health and safety culture**
  Parkia offered occupational risk prevention training to all employees in February 2020 to help minimise injuries and absenteeism

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Case study

Indian consumer companies – engagement on sustainable packaging

Team: Stewart Investors Sustainable Funds Group

Issue type: Other Environmental/ Biodiversity

Relevant SDG: Responsible Consumption and Production

Background

Half the plastic that currently exists has been made since 2005 – and its manufacturing might double in the next two decades.[1] It's convenient, lightweight and durable. But after perhaps just hours of use, the hundreds of years it takes to biodegrade can have a huge environmental impact. Now the focus on safety and hygiene brought about by the COVID-19 pandemic has led to another increase in consumption of disposable plastic materials.

We thought it crucial to consider how the companies we invest in are addressing both their use of plastics and the way they think about the post-consumer waste generated.

This tremendous growth in plastic usage, and consequently plastic waste, is particularly significant in emerging markets. In India, plastic consumption is still relatively low by global standards – approximately 8-11kg per head per year, compared with Europe at 50-65kg and the US at 68-109kg. But this is growing at an average annual rate of 20%.

Objectives

- Encourage companies to collect more post-consumer plastic waste
- Increase the use of recyclable materials in packaging
- Reduce the total weight of packaging materials used

Process

To us, this confluence of low current usage with the potential for rapid growth suggested an opportunity to engage with some of India's largest local and international consumer goods companies: companies we own shares in on behalf of our clients.

In 2018, we organised an interactive forum in Mumbai with these companies and the Institute for Sustainable Futures at the University of Technology in Sydney. The timing of the forum coincided with the introduction of nationwide Extended Producer Responsibility policies that focused on these issues and galvanised these companies to find innovative and collaborative solutions.

Outcome

In the two years since this forum, many of our Indian consumer holdings have made some real strides in terms of their approach to plastic packaging material. Most now collect more than 50% of the post-consumer plastic waste generated, by weight, with a goal of collecting 100% by 2022 at the latest. Specific highlights include Godrej Consumer Products, which aims to use at least 10% of the post-consumer waste it collects in new packaging material, and to use 100% recyclable/reusable material by 2025. Marico is trialling a post-consumption collection initiative of its own-brand bottles, which it will convert into pallets made from 100% recycled plastic to use in its own supply chain handling operations.

Next step

These companies have taken major steps towards a circular economy and a more sustainable approach to consumption. These are only the first steps however, and we will continue to engage with these companies on how they approach plastic usage.

[1] nationalgeographic.com/environment/article/un-environment-plastic-pollution-negotiations

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

15 LIFE ON LAND

Case study

Brambles – a circular business model

Team: Fixed Income and Credit

Issue type: Other environmental

Relevant SDG: Responsible Consumption and Production, Life on Land

Background

Brambles makes and distributes reusable pallets, crates and containers. It aims to be one of the world's most sustainable logistics companies, with a circular business model that encourages the sharing and reuse of its products. It told us it was trialling a new system to improve its pallet reclaim process and reduce energy usage.

Objectives

- Learn more about the new processes and factor that into our analysis of the company
- Discuss ongoing performance of the pallets business from an ESG perspective

Process

We met with Brambles' Director of Sustainability.

Outcome

We learned that Brambles had recently had discussions with sawmills in the USA that specifically cater to pallet makers. This was worrying as it could mean use of log timber rather than reclaimed timber and offcuts. But Brambles affirmed that the bulk of its wood still comes from reclaimed timber, and that its use of log timber would be low. None of its wood goes to landfill – and it told us this won't change.

Brambles is trying out a biomass boiler facility to minimise use of gas during its wood-washing process. If it's feasible, the company wants to roll these boilers out across its sites in the EU. Fuel use has a big impact on costs, and we think the biomass trial is a move in the right direction. Brambles has already increased its use of renewable electricity – now 70%, up from 60% in the 2019 financial year.

Next step

We believe Brambles' main risk is losing access to the amount of wood it needs longer term. The company must make sure that it uses wood as efficiently as possible, and this will be a key subject in our follow-up review on the company's progress. We'll also track its progress on log timber use and the amount of gas displaced with the new biomass boiler system, along with overall energy intensity.

Our engagement with Brambles reaffirms our view that the company is well placed to manage its key ESG risks. It has sought credible ways to improve its operations for better environmental outcomes. There was no change to our internal credit rating after this review.

Case study

ForSea – sustainability at sea

Team: Direct Infrastructure

Relevant SDG: Good Health and Well-being, Gender Equality, Industry, Innovation and Infrastructure, Sustainable Cities and Communities, Responsible Consumption and Production, Climate Action, Life Below Water.

Agreeing a plan at board level

ForSea is the largest operator of ferries between Denmark and Sweden. It was acquired by our European Direct Infrastructure Strategy (EDIS) in January 2015. In 2019, in line with FSI guidance on ESG best practice, we proposed an action plan to the board on how ForSea can contribute to select UN Sustainable Development Goals (SDGs). The plan included:

- Better diversity reporting, with targets to increase female representation at board and management levels
- Phasing out all plastic consumables
- Supplying certified sustainable-only fish and seafood in ForSea's restaurants
- The climate-neutral operation of ForSea's ferries

Acting on the plan to achieve clear goals

A new board-level ESG committee, which included EDIS representatives, was set up in 2020 to help oversee and drive work in these areas. Its achievements in 2020 include:

- Eliminating fossil-based plastic on ForSea vessels four years earlier than planned
- Recycling 87% of waste against a target of 65%
- KRAV certification (the leading Swedish certification for sustainable food)
- Regular, structured reporting of gender diversity at board and senior management level, with short-, medium- and long-term workforce gender diversity targets set
- Diverse interview panels in recruitment processes. ForSea aims for a 50/50 gender balance across all employees by 2024 - by December 2020 this stood at 58% men, 42% women
- Training on combatting discrimination, bullying and harassment scheduled for all managers and union representatives, on vessels and onshore
- Health and safety made a compulsory topic in all department meetings, with a status report reviewed at management level, to help achieve the company's zero accident target
- Significant reductions in energy consumption thanks to the company's 'Blueflow' energy management system. In October 2020, the crew on one vessel managed to reduce average energy consumption to 97kg/trip, 27% below budgeted levels
- Stronger whistle-blowing mechanisms with the appointment of an external law firm to deal with any claims from stakeholders
- Employees who are well-informed about ForSea's selected Sustainable Development Goals and how they integrate into the company's business model. Monthly activities to explain the goals to both guests and employees began in 2020, with a different focus goal each month.

RESPONSIBLE CONSUMPTION AND PRODUCTION

Case study

Siemens Gamesa – controversial mining

Team: Stewart Investors Sustainable Funds Group

Issue type: Biodiversity and human rights

Relevant SDG: Sustainable Management and Use of Natural Resources

Background

Siemens Gamesa is the world's second-largest wind turbine manufacturer. It also maintains and supplies onshore and offshore wind farms. We invested in the company because we believed it would benefit from long-term sustainable and structural tailwinds. But we became concerned about its involvement in wind power projects linked to phosphate mining in the Western Sahara.

There are serious concerns that the exploitation of natural resources in the Western Sahara has happened at the expense of the local community. The region is currently administered by the Moroccan Government, but Morocco's presence in the region is widely considered to be illegitimate and in contravention of international and social norms.

Objectives

- To better understand the company's assessment of risk in the Western Sahara
- Encourage the company to reconsider its involvement in the region

Process

We wrote to the management of Siemens Gamesa about its involvement in the region.

Outcome

The company's response to these long-term risks didn't reflect our weighting of them.

Next step

This, alongside management turnover and uncertainty about future governance structure, led us to sell our holding in the company.

Identifying and responding to market-wide and systemic risks

In a post-COVID-19 world, we will all be searching for lessons we must take away from the pandemic

COVID-19

We're factoring RI into a post-pandemic world

We responded quickly and effectively to the market turmoil caused by the onset of COVID-19 including a smooth, proactive transition to a global remote working environment. Our comprehensive business continuity planning included switching to a remote trading function without any issues. We were able to continue with daily liquidity monitoring and control, daily price monitoring and fair value assessments even in the event of some market closures.

During this unique year, our RI Steering Group continued to set the direction and strategy for RI within the firm. This included extensive discussions about how RI will continue to develop in a post-COVID-19 world.

We believe that active managers have both an opportunity and a responsibility to be active. In a post-COVID-19 world, we will all be searching for lessons we must take away from the pandemic. We must seize this opportunity to recognise the positive impact investors can make, and to continue looking at how we can work collaboratively with the companies we invest in.

Climate change

Why it's important to us

Climate change and global warming pose systemic risks to society and the global economy. They affect the availability of resources, the price and structure of the energy market, the vulnerability of infrastructure and the valuation of companies. The World Economic Forum has ranked the failure to take action on climate change as the highest risk in terms of its impact, and in terms of its likelihood it ranks second, behind extreme weather.[1]

As investors, we understand that climate change poses a complex problem that has already impacted, and will continue to impact, different assets in different ways.

[1] www3.weforum.org/docs/WEF_Global_Risk_Report_2020.pdf

What we're doing

In 2016, First Sentier Investors established a climate change working group to take a broader view of the issue and its investment implications. From this work, we identified the following key areas of climate change risk and opportunity facing investors today and into the future.

- Physical impacts of climate change
- Carbon emissions/Regulatory intervention
- Business transition/Stranded asset risk
- Fiduciary duty/Legal risk
- License to operate/Reputational risk

Following the completion of this work, we released a series of five white papers that present the context for each issue, the implications for investors, and provide guidance on how investors can incorporate these issues into their risk management and investment decision-making processes.

Over the past year:

- Individual investment teams have been working to incorporate the findings of these white papers into their own investment processes
- We have developed new tools to help us measure and monitor climate risk, and we are working on ways to report more systematically on climate-related risks and opportunities to our Global Investment Committee, boards and RI Steering Group
- Climate change, and what it means for a portfolio to be net zero aligned, has formed a key pillar of our 2019 RI Learning and Development strategy
- We have run a series of sessions for the business with a focus on investment teams, including external speakers on market developments and how best to engage more effectively to achieve net zero

Taking action...

We published white papers presenting context on climate change

We created individual investment teams to implement findings

We developed new tools to help us measure climate risk

Biodiversity

Why it's important to us

As we increase our focus on climate change, we must also increase our focus on biodiversity.

Although the world's 7.6 billion people represent only 0.01% of all living things by weight, humanity has already caused the loss of 83% of all wild mammals and half of all plants.[1] The current rate of extinction is tens to hundreds of times higher than the average over the past 10 million years, and it is accelerating. Current production and consumption patterns, land use and urbanisation, population dynamics, trade, industry and governance models underpin this loss.

As investors, we know that biodiversity loss creates risks for the companies we invest in together with the broader economy, and that we need to do more to understand and mitigate those risks.

What we're doing

To date, the work of individual investment teams and our RI team on biodiversity has been focused on:

- **Key issues:** including deforestation in the Amazon, improving plastic packaging and the circular economy in India, and engaging with commercial and domestic washing machine manufacturers on the issue of plastic microfibre pollution (see page 49)[2]
- **Specific companies:** for example, engaging with companies on their environmental permit processes to ensure that vulnerable species are not impacted by the development work they are undertaking[3]

The key SDG targets we are looking to contribute to through our activities are SDG Target 12.6: to encourage companies to adopt sustainable practices and to integrate sustainability information into their reporting cycle, and SDG Target 14.1: to prevent and significantly reduce marine pollution of all kinds.

SDG Targets encourage companies to adopt sustainable practices and sustainability information into their reporting cycles

[1] www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf

[2,3] www.nature.com/articles/s41598-019-43023-x

In terms of our investment portfolios, at the beginning of 2020 we established a modern slavery working group consisting of investment team members and led by the RI team

Modern slavery

Why it's important to us

The International Labour Organization has estimated that there are over 40 million victims of modern slavery.[4] Women and girls account for 71% of modern slavery victims, while one in four victims are children.

Modern slavery includes crimes such as forced labour, debt bondage, human trafficking, child labour and forced marriage, and disproportionately affects vulnerable communities.

Against this backdrop, investors, regulators and markets have an obligation to address modern slavery risks as a key aspect of their ESG obligations. The opportunity to influence positive change for the millions of victims of modern slavery is central to our stewardship responsibilities.

Additionally, we recognise that there are business risks associated with human rights, and this impacts our investment portfolios.

What we're doing

First Sentier Investors is taking a leadership position to address modern slavery. This entails a two-pronged approach: looking at our own operations and supply chain, and engaging with the companies we invest in.

In terms of our own operations, in September 2020 we published the firm's first Modern Slavery Statement under the Australian Modern Slavery Act as well as initiating a review of our risk and compliance framework.

The review includes:

- re-assessing the risk of modern slavery in our business and our supply chains and our approach to such risks
- developing and implementing a specific modern slavery policy
- enhancing current staff awareness of modern slavery, including the specific risks of modern slavery, through business-wide training and targeted training for staff involved in the engagement of suppliers and for our investment teams
- identifying those standards against which to assess our progress on slavery and human trafficking issues

Over subsequent reporting periods, we intend to take the findings of this review and determine the appropriate measures to further enhance our risk and compliance framework.

In terms of our investment portfolios, at the beginning of 2020 we established a modern slavery working group consisting of investment team members and led by the RI team. The purpose of the group was to build on the work we have done previously on human rights more broadly and further integrate risk identification and governance into our processes. This group created a Modern Slavery Toolkit, which was published in June 2020.

The toolkit provides detailed background on modern slavery risks, as well as case studies of best practice. The investment teams have been working to implement this toolkit into their own investment processes and collect data so that we are able to report on progress and refine our approach in 2021.

[4] International Labour Organization, 2016

Identifying and responding to market-wide and systemic risks

We're addressing human rights and modern slavery

Companies have legal, moral and commercial responsibilities to respect human rights and manage the human rights impacts of their operations. They are expected to meet those responsibilities, and can face reputational, legal or other consequences if they fail to do so. As an investor in these companies on behalf of our clients, we must fully understand the risks and try to mitigate them.

Here are some of our recent or imminent initiatives.

- **Our Human Rights Toolkit**
  This sets out the key elements of our RI strategy that are directly related to human rights and modern slavery. We first developed this toolkit in 2016
- **Our Modern Slavery Working Group**
  We set up this group at the start of 2020. It's made up of investment team members and led by the RI team. This group aims to build on our broader human rights work and further integrate risk identification and governance into our processes
- **Our Modern Slavery Toolkit**
  This was created by our Modern Slavery Working Group and published in June 2020. We developed it in response to the Modern Slavery Act in Australia in 2018
- **Our Modern Slavery and Human Trafficking Statement**
  We published our first statement under the Australian Modern Slavery Act in September 2020. In 2020, we also launched a review of how modern slavery is addressed within our risk and compliance framework
- **The anti-slavery coalition**
  Recently, we convened a new coalition known as Investors Against Slavery & Trafficking Asia-Pacific (IAST APAC), alongside other institutional investors. This group aims to reduce modern slavery risks in the APAC region and to be a source of significant learning and insight for investors around the world
- **Identifying companies at risk**
  We're working to better identify companies in our portfolios that are exposed to modern slavery risks in their operations and supply chains, and to address these risks
- **Dedicated portfolio-level analytics**
  We plan to introduce these analytics so we can identify and report on the risks in each portfolio across our global business
- **Harnessing data from a range of sources**
  As well as benefiting from the analysis of our individual investment teams and our internal Modern Slavery Investor Working Group, we're making the most of other sources of data, including:
  - the Walk Free Foundation
  - the US Department of Labor
  - Sustainalytics
  - RepRisk

See more about 'Investors Against Slavery & Trafficking Asia-Pacific (IAST APAC)':
iast.fastinitiative.org/

8 DECENT WORK AND ECONOMIC GROWTH

Case study

Healthcare supplies and clothing industries – human rights and modern slavery

Team: Stewart Investors, Multi-Asset, Realindex, FSSA Investment Managers, Fixed Income and Australian Small Caps

Issue type: Human rights and modern slavery

Relevant SDG: Decent Work and Economic Growth

Background

As the COVID-19 pandemic gathered speed in March 2020, we realised that modern slavery was likely to escalate in certain sectors. In some industries, such as healthcare, higher demand could see corners cut to meet production deadlines. In others, such as clothing, lower demand could deprive workers of wages, making them vulnerable to traffickers and criminals. And those already living and working in conditions of slavery would face great risk of catching COVID-19 and great difficulty getting medical care.

Objectives

- Raise awareness of the heightened risks of modern slavery as a result of the pandemic among some of the most severely affected industries
- Encourage companies to take action where we felt their responses were inadequate
- Share examples of best practice
- Deepen our own knowledge of modern slavery risks within our portfolios

Process

In April 2020, we wrote to 27 of the companies we invest in across the healthcare supplies and clothing industries. We asked them to tell us how they were addressing modern slavery issues in the middle of the pandemic. In particular, we wanted to know:

- How travel restrictions were affecting their ability to visit sites in their supply chains
- What steps they were taking to make sure workers followed the World Health Organization guidance to limit the spread of COVID-19
- Whether workers had access to paid sick leave
- Whether workers in their supply chain were being properly rewarded
- If they'd set up or contributed to emergency relief funds or financial support packages
- If they had plans to resume orders or reinstate workers after the pandemic

Outcome

Thirteen companies on our target list replied. We segmented them into those who were following best practice, those we needed to monitor and those that needed to take urgent action to improve. We've had many meaningful conversations around best practice, and we were pleased with the innovative measures some of our companies were taking to support workers in their supply chains. These measures included collaborating with governments, NGOs, UN agencies and industry peers to support suppliers and their workers, and using video technology to carry out remote audits.

Next step

We plan to follow up with those companies using video or remote audits to see how effective these are. We've also continued to monitor companies that had low awareness of the issues, and share with them examples of best practice and what we've learnt from this engagement.

8 DECENT WORK AND ECONOMIC GROWTH

Case study

Top Glove – human rights and modern slavery

Team: FSSA Investment Managers

Issue type: Human rights and modern slavery

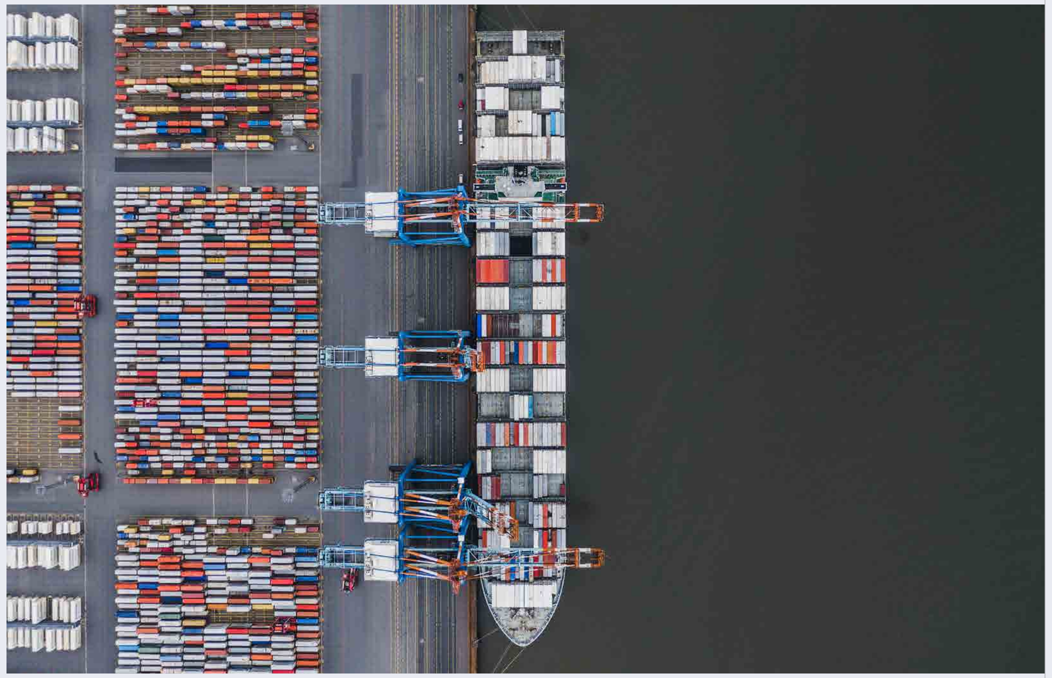
Relevant SDG: Decent Work and Economic Growth

Background

In 2018, the Global Slavery Index estimated that 25m people in the Asia-Pacific region were victims of modern slavery. We identified healthcare supplies and garment manufacturing as two industries that could see heightened risk of modern slavery. Because of the COVID-19 pandemic, we considered Top Glove to be a particularly high-exposure holding given surging demand for its rubber gloves, its large workforce and its reliance on foreign workers.

Objectives

- Raise awareness of the heightened risks
- Identify exposure to modern slavery
- Share examples of best practice
- Encourage the company to take action



Process

We first engaged with Top Glove on modern slavery risk in late 2018 after allegations against it in the British media around practices that could constitute modern slavery. These included debt bondage, workers exceeding overtime limits, retention of passports by the company and unsafe factory conditions. At the time, we were encouraged by changes to the way the company was treating its workers. It introduced a mandatory rest day for example, ended workers paying recruitment fees, and kept passports safely in workers' dormitories.

In June 2020, we again wrote to Top Glove about the heightened modern slavery risk in its supply chain. The company supplied answers, but we felt these were fairly limited and that the company's supplier engagement and labour sourcing policies should be more robust. We'd also asked for a sample audit and were disappointed by the quality and extent of it.

Soon after our review of the audit, the US Customs and Border Protection (CBP) ordered a Withhold Release Order (WRO) on two of Top Glove's largest subsidiaries, freezing imports of its goods. The WRO targeted recruitment fees (believed to facilitate debt bondage) that had not been repaid to workers hired before January 2019. This was a large part of the workforce – 80% had been hired between 2015 and 2019. The Ministry of Manpower in Malaysia, as it had in response to the 2018 allegations, investigated Top Glove's factories and declared that there were no instances of 'modern slavery'. But it was clear to us that fees were still outstanding.

Outcome

After the company's reply to our letter and the CBP action, we had a call with the company's CFO to hear further details and encourage better practice. The CFO told us that the company had set aside RM50m for remediation and shared a third-party audit with us. But we didn't believe that RM50m was enough given the average fee paid, and we didn't find the audit particularly comprehensive. We felt the company wanted to do right by its workers, but there was clearly a large discrepancy between conditions for foreign workers in Malaysia and international expectations.

We shared with Top Glove our experience with the Indian generic pharmaceuticals industry, where we had come across similar issues, and where conditions had improved notably. We also encouraged more extensive and unannounced auditing and further remediation.

Next step

On both valuation grounds and quality concerns, we sold the last of our shares in Top Glove. But in line with our Modern Slavery Toolkit recommendations that we follow up with companies 6-12 months after an engagement, we're monitoring the company to make sure total remediation is carried out even though we're no longer shareholders. We're escalating our concerns directly with the company to make sure it has processes to resolve issues for any victims and to prevent further problems.

We're pleased that an independent report has been submitted to the CBP. More importantly, the remediation fees have been revised up to RM136m, enough to cover the fees of all 11,000 workers. Finally, Top Glove has committed to working with the independent consultant to regularly assess the welfare of workers. We welcome these positive steps.

8 DECENT WORK AND ECONOMIC GROWTH

Case study

Sydney Airport – human rights and modern slavery

Team: Fixed Income and Credit

Issue type: Human rights and modern slavery

Relevant SDG: Decent Work and Economic Growth

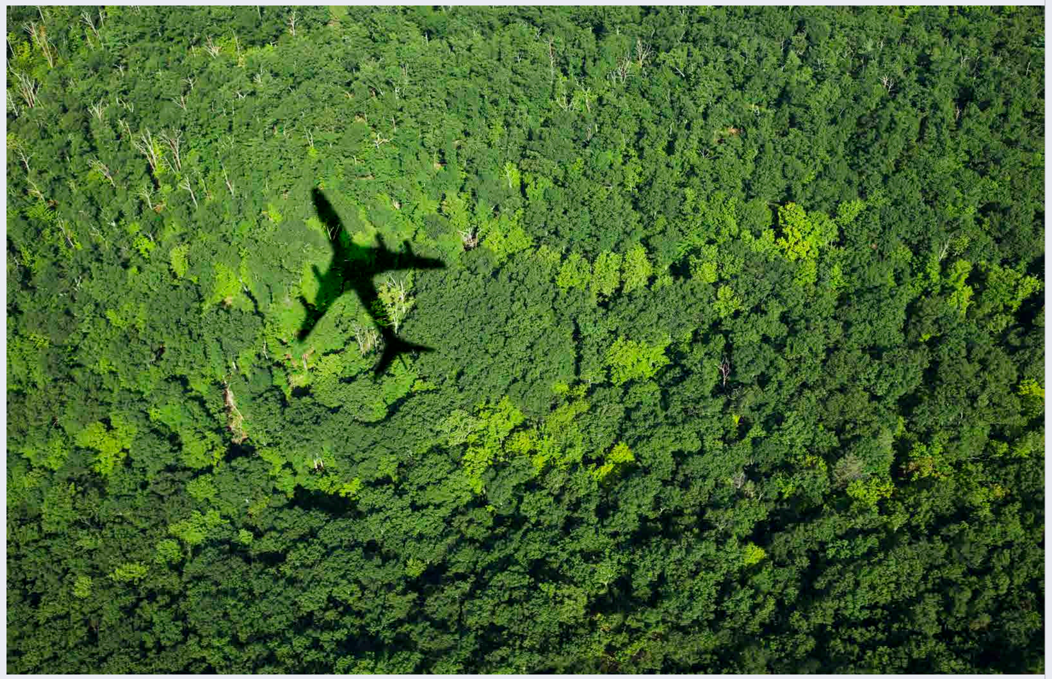
Background

Sydney Airport relies heavily on outsourced labour. Of the 30,000+ workers on site every day, only around 500 are permanently employed. What's more, as one of the two main gateways in and out of Australia, the airport is one of the last touchpoints in the country for victims of human trafficking.

In 2020, the airport faced controversies around alleged underpayment of cleaners during the COVID-19 pandemic. After Australia's modern slavery laws came into force on January 1 2019, we engaged with airport management to better understand its work on the issue.

Objectives

- Understand the work already done to comply with the modern slavery legislation, including the airport's recently completed modern slavery risk assessments and its roadmap for the next few years
- Investigate the controls, safeguards and processes in place in this highly outsourced environment, particularly those related to more commoditised and less skilled roles, such as cleaning, during the pandemic
- Understand the airport's view of human trafficking and the role it plays



Process

We had a conversation with Alicia Burgmann, Head of Sustainability and GM of Safety, Sustainability and Environment.

Outcome

- Airport management's response was very open and highlighted several areas of focus. These included cleaning, grounds keeping, curbside services, construction, IT and procurement. There was also an emphasis on improving processes to monitor supplier compliance. Management told us that it plans to roll out specific modern slavery training to key procurement and sourcing staff by the end of 2020, and broader awareness training to all staff by the end of 2021. We liked the constructive approach of working with suppliers that fell short of its Supplier Code of Conduct, rather than simply ending a contract. There was also a clear line of reporting, with direct senior management responsibility for ethical sourcing. This forms part of the ESG reports that go to board sub-committees for review
- The pandemic meant that the airport was under pressure to reduce costs and clean more often. Reports suggested that cleaning staff were being underpaid and pressured to work even when feeling unwell. But management was not aware of any issues and is fairly confident that the on-site cleaning staff were not adversely affected. They're employed through a large, reputable cleaning and services supplier that is also subject to modern slavery laws. Management also noted that there are typically very few sub-contractors at the airport due to its policy of personally approving every sub-contractor on site
- Sydney Airport recognises its responsibility to help victims of human trafficking. It has worked closely with the Australian Federal Police to develop a process for staff to report and monitor suspected victims before they're questioned by officers. It's identified the highest risk group as women (typically younger women or teenagers) being taken for forced marriages overseas
- Overall, we were pleased with Sydney Airport's heightened awareness of modern slavery risks, highlighted in our detailed conversations with management. We believe that the work it's doing ahead of the modern slavery reporting in 2021 is reasonable and relatively robust. Our engagement in September 2020 confirmed our ESG risk assessment of 'Low' which supports a solid investment grade credit rating and our long +50% alpha signal on the bonds
- We decided to maintain this alpha signal despite having already reached our original spread target. This was because of the strong management shown on this issue, as well as other efforts to ensure liquidity to trade through a difficult environment. We believed this should see spreads tighten in the next 12 months. This proved the correct call, with spreads tightening even further in late 2020 and early 2021

Next step

We see self-evaluation for suppliers and unsystematic audits of suppliers of manufactured items as potential weaknesses in the current process. We'll track the incidences and weaknesses as they're reported, and encourage the airport to adopt more structured audits, use certified labour hire companies (currently a mix of certified and uncertified) and pay a minimum living wage.

We look forward to the airport's Modern Slavery Statement release in June 2021.

Increasing our influence through collaborative engagement

We're committed to active engagement – much of it with other investor groups – and collaboration is vital to that. We collaborate in particular when we believe we can amplify our message in a larger group of like-minded institutional investors – which sometimes includes our institutional clients.

We influence issues from modern slavery to marine conservation

Our long record of collaborative engagement with other global investors covers a number of important topics, such as:

- Corporate responsibility
- Human trafficking and modern slavery
- Environmental concerns
- Board representation

Case study

Collaborating with the laundry industry on marine microplastic pollution

Relevant SDG: Life Below Water

'Plastic pollution in our marine environment is taking place on a staggering scale ... the widespread contamination of our oceans is fast becoming a worldwide human health risk as plastic enters our food and water supplies'

Inger Andersen, Executive Director, UN Environment Programme, former Director General, International Union for Conservation of Nature

The advent of polymer-based synthetic fibres like nylon and polyester has transformed fashion and revolutionised garment production. More than 60% of the clothes we buy today contain these fibres. When we wash our clothes at home, tiny fragments break off in the washing machine and are released unseen, with the wastewater, into rivers and oceans. Collectively, the tiny synthetic fibres represent a major source of microplastic pollution in our oceans, equivalent in volume to every person on the planet throwing 15 plastic shopping bags into the sea every year.

Globally, more than 840m domestic washing machines are in use, with one kilogram of washing able to release up to 1.5m fibres.[1] Across the UK, for example, 9.4tr fibres could be released in one week alone.[2] With the advent of technological solutions to fit filters in washing machines, there are now solutions to prevent this serious pollution risk. However, adoption is slow.

In late 2020, in the EMEA region, we collaborated with leading UK-based science-led charity the Marine Conservation Society (MCS). We aimed to spearhead an investor engagement programme with a group of asset managers and asset owners, including institutional clients.

This programme, which complements the MCS #StopOceanThreads campaign, targets manufacturers of domestic and commercial washing machines. It urges them to fit filters to stop vast numbers of plastic microfibres entering the global marine ecosystem. This technology is available today, but is not widely used by the industry.

We have two clear objectives. The first is to apply group pressure to manufacturers to influence them to fit plastic microfibre filters as standard in all new machines by the end of 2023. The second is to lobby the government to put legislation in place banning the sale of new machines that don't have filter mechanisms built in.

[1] nature.com/articles/s41598-019-43023-x

[2] thewi.org.uk/_data/assets/pdf_file/0007/327418/WI_EndPlasticSoup_Report_Stakeholders.pdf

8 DECENT WORK AND ECONOMIC GROWTH

Case study

IAST APAC – collaborative engagement on modern slavery

Relevant SDG: Decent Work and Economic Growth

Convened by First Sentier Investors, Investors Against Slavery and Trafficking (IAST) APAC includes founding members Aware Super, AustralianSuper, Fidelity International, Ausbil Investment Management and the Australian Council of Superannuation Investors. Walk Free and the Liechtenstein Initiative for Finance Against Slavery and Trafficking (FAST) are acting as Secretariat. This initiative is a coalition of Asia-Pacific investors working together to prevent and address modern slavery and human trafficking risks.

The first act of the coalition was to send out an investor statement to ASX100 companies on investor expectations for modern slavery reporting. The statement has been signed by over 20 investors who together have USD 4.27tr assets under management* and is designed to address the harms of modern slavery.

Most Australian companies are only beginning to report under the Modern Slavery Act. The coalition felt that there was a crucial window of opportunity to set out expectations for these reporting entities. The aim was to make sure they report in a meaningful way and prioritise effective action to identify and address human rights issues.

In 2021, the coalition will launch a multi-year collaborative engagement with companies in the Asia-Pacific region, based on CCLA's Find It, Fix It, Prevent It initiative being run in the UK. The purpose of the initiative is to:

- Raise concerns about modern slavery risk with companies systematically and consistently
- Create more meaningful and effective change by using collective leverage to protect people from modern slavery, labour exploitation and human trafficking
- Avoid duplication of effort among investors working to address modern slavery risks
- Increase awareness of modern slavery, trafficking and labour exploitation risks among the investor and business community
- Provide a framework for investors to address risks in order to meet legal and other requirements including the requirement to enable effective remedy
- Share information and knowledge about modern slavery risks

Dr James Cockayne, Head of Secretariat, FAST, explains that investors have unique leverage to foster changes in business conduct to address modern slavery and human trafficking risks. He said "The leadership offered by this group of institutional investors promises not only to reduce modern slavery in the region, but also to be a source of significant learning and insight for investors around the world."

*As at 30 September 2020

7 AFFORDABLE AND CLEAN ENERGY

13 CLIMATE ACTION

Case study

Southern Company – climate change

Team: Global Listed Infrastructure

Issue type: Climate change

Relevant SDG: Affordable and Clean Energy, Climate Action

Background

Southern Company is one of the largest electricity companies in the United States. It generates electricity from a range of sources, and around a quarter comes from coal-fired power stations. Burning fossil fuels to generate electricity releases substantial amounts of carbon dioxide into the atmosphere, exacerbating global warming and climate change. When we began engaging with Southern Company, it hadn't yet committed to any long-term carbon reduction targets aimed at achieving net zero emissions.

Objectives

- Raise awareness of the heightened risks
- Encourage companies to take action
- Share examples of best practice

Process

Our Global Listed Infrastructure Securities (GLIS) team was part of a Climate Action 100+ working group engaging with Southern Company. Climate Action 100+ is a collaborative initiative made up of over 500 global investors working to get clear commitments from the world's largest corporate greenhouse gas emitters to take necessary action on climate change.

Outcome

After a combination of dialogue and shareholder proposals spanning several years, Southern Company announced a new climate strategy in May 2020 with a goal of achieving net zero emissions by 2050. This step reflects the importance of taking action to combat climate change, and acting in the interest of long-term stakeholders to confront both its risks and its growth opportunities.

Next step

We look forward to continued engagement with Southern Company to make sure it takes key steps to meet this long-term goal.

We look forward to continued engagement with Southern Company to make sure it takes key steps to meet this long-term goal

40:40 Vision Initiative

Joining forces to achieve a better balance

Recent research has shown that gender-balanced businesses perform better, proving it's not OK for companies and executive teams to be dominated by men. Yet the Chief Executive Women (CEW) ASX200 census found there were only 10 female CEOs of ASX 200 companies, the lowest since the census began four years ago. So, during 2020, we signed up to the 40:40 Vision initiative in Australia.

Convened by super fund HESTA, it aims to increase the proportion of women in senior leadership across Australia's largest listed companies to at least 40% by 2030. Gender equality is important to us and we expect our investment portfolio to reflect that commitment. Our CEO Mark Steinberg currently sits on the 40:40 Vision steering committee, playing an active role in this vital initiative.

hesta.com.au/4040Vision

hesta.comau/4040Vision
#getinvolved

Increasing our influence
through collaborative
engagement

Industry collaboration

We support a number of industry and trade groups that are focused on developing and improving RI. While these groups do not speak for us unless we specifically sign a statement they draft, we are aligned with their broader missions.

Each year, we review the various initiatives that we have been involved with. We do this to ensure their purpose aligns with our clients' interests and that we have the capacity to make a meaningful contribution. The initiatives that we actively support and engage with are listed here:

Global

Principles for Responsible Investment (PRI)
- Signatory

Cambridge University's Investment Leaders Group
- Founder Member
- Chair of Working Group

Asia Pacific

Financial Services Council
- Director of the FSC Board
- Member of the Fund Management Board Committee
- Member of the Investment Expert Group
- Member of the ESG Working Group

Investor Group on Climate Change
- Member

Australian Sustainable Finance Initiative
- Member of the Coordinating Working Group
- Member of the Technical Working Group

Responsible Investment Association Australasia
- Board Member
- Member of the Human Rights Working Group

30% Club Australia
- Investor Working Group Member

40:40 Vision
- Steering Group Member
- Investor Working Group Member

Women in Sustainable Finance
- Committee Member

Investors Against Slavery and Trafficking APAC
- Chair

EMEA

UK Sustainable Investment Forum
- Board Member

EUROSIF
- President

Institute of Chartered Accountants in England and Wales (ICAEW)
- Member of the Corporate Governance Committee
- Member of the Sustainability Committee

Prince's Accounting for Sustainability (A4S)
- Expert Panel Member

UK Investment Association
- Member of the Sustainability & Responsible Investment Committee
- Chair of the Standards & Definition Working Group

London Stock Exchange Group
- Member of the Sustainable Investment Committee
- Member of the ESG Advisory Committee

Policy and wider industry engagement

There has been unprecedented growth in regulation of the RI-related activities of the investment industry. We've actively taken part in a number of consultations and initiatives that we believe support the transition to a more sustainable financial system. Below we detail some of the key initiatives we've been part of during the past year.

In June 2020, we created a formal SFDR project steering group. This is made up of senior representatives from our RI, legal, compliance, product, marketing, sales and distribution teams.

EU Sustainable Finance Disclosure Regulation

What it is

The EU's Regulation on sustainability-related disclosures in the financial services sector (SFDR) sets out a series of organisational and product level disclosures that asset managers must make in their financial product documentation and on their website. It forms part of the EU's Sustainable Finance Action Plan, a broader package of measures relating to ESG issues. The implementation date of the SFDR is 10 March 2021.

What we're doing

We support efforts to empower end-investors to make informed decisions on where to allocate their savings, pensions and other investments based on increased transparency from asset managers. We also support the underlying policy objectives of the SFDR (and wider EU Sustainable Finance Action Plan) in meeting the Paris Climate Agreement objectives, contributing to the achievement of the Sustainable Development Goals, and providing high quality information for investors to prevent 'greenwashing'.

In August 2020, we responded to the SFDR Consultation Paper and have been closely monitoring and engaging with EU policy makers and industry trade groups on developments in this area. In June 2020, we created a formal SFDR project steering group. This is made up of senior representatives from our RI, legal, compliance, product, marketing, sales and distribution teams. The steering group has been working to implement the SFDR requirements to make sure we comply fully with the relevant requirements by the implementation date.

Australian Sustainable Finance Initiative

What it is

The Australian Sustainable Finance Initiative (ASFI) was formed in March 2019 as an industry-led body. Over a period of 18 months, ASFI developed a roadmap to align the finance sector to support greater social, environmental and economic outcomes for the country. The roadmap sets out a suite of 37 recommendations categorised under the following four areas:

1. Embedding sustainability into leadership
2. Integrating sustainability into practice
3. Enabling resilience for all Australians
4. Building sustainable finance markets

It also includes an Action Plan and suggested timeframes for implementation of each of the recommendations.[1]

What we're doing

We were pleased to be represented by two employees on two technical working groups. As a business, more broadly we engaged with ASFI throughout the process, including inviting the Co-Chairs to engage with us at an RI Steering Group meeting and through presentations to the Australia Management Team. We were proud to support these recommendations when they were released, and look forward to continuing to work closely with ASFI throughout the implementation phase, beginning in 2021.

Japan's Stewardship Code 2020

What it is

Japan introduced its first Stewardship Code in February 2014. Taking further developments in various areas into account, the Japanese Financial Services Agency (JFSA) drafted a revision of the Stewardship Code and opened it up for public comment in December 2019.

What we're doing

We gave our feedback on the consultation paper in January 2020. The finalised Revision of the Stewardship Code was published in March 2020. We're currently making sure we comply with the new Code and look forward to engaging with the JFSA.

Monetary Authority of Singapore Guidelines on Environmental Risk Management

What it is

In June 2020, the Monetary Authority of Singapore (MAS) proposed a set of guidelines on environmental risk management for fund management companies and real estate investment trust managers. In the consultation paper, the MAS highlighted the need for the financial sector to take action to address environmental risks and support the transition to an environmentally sustainable economy. The guidelines are intended as a call to action to this sector and highlight expectations that financial institutions will enhance the integration of environmental risk considerations as part of their investment process.

What we're doing

In July 2020, we provided feedback on the consultation paper. The finalised guidelines were released in December 2020. We are currently in the process of adopting the guidelines and look forward to engaging with the MAS further on this topic.

[1] https://static1.squarespace.com/static/5c982bfaa5682794a1f08aa3/t/5fcdb74ee43f2b00a8c74ec9/1607317331508/Australian+Sustainable+Finance+Roadmap+%E2%80%93+Executive+Summary.pdf

Open, transparent communication that supports the needs of clients

We aim to be at the forefront of high quality reporting and disclosure for the benefit of our clients and their advisers. Our transparency is a critical part of that and has many benefits.

- It makes it clear to clients and regulators how we execute our responsible investment obligations
- It shows we act as the best possible stewards of their capital
- It means they can hold us accountable for our performance
- It shows we operate with honesty and integrity

We provide clear reporting that's easy to understand

We've published our global Responsible Investment Report annually since 2007 when we first became a signatory to the PRI. The report reinforces our transparency and accountability as it details how we integrate ESG issues into our investment processes, and how we report on our engagements with investee companies – both directly and by working with our peers.

The way we report our ESG-related activities to our global client base has become much more sophisticated. This is reflected in many of the 'real time' tools now available 24/7 on our website. Examples include our carbon reporting dashboard for individual investment teams and our 'live' proxy voting record.

Every year since 2015, we've also published case studies from across our investment teams. We share these case studies on our website in a highly interactive format. Together, they bring to life the progress we've made and the challenges we've met, as well as showcasing our focus on transparency for clients and prospects. To date, we've collected over 130 case studies that reveal how our culture of RI and stewardship translates into real-life investment decisions and company engagement.

We help our clients stay on top of the issues

We regularly send out white papers and investment-led commentary to clients on topics such as modern slavery, microinsurance, plastic pollution and renewable energy. And before the COVID-19 pandemic, we regularly hosted large-scale RI events in our regional locations for clients. We invited prominent guest speakers on topics relevant to both our business and our wider industry. During 2020, we adapted our approach, engaging with our clients on investment and sustainable topics through video and podcasts.

We also explain to clients how we approach stewardship and RI, and how we integrate them into our individual portfolios, during one-to-one client meetings.

Our individual investment teams strengthen communication with investors in a range of different ways. For instance, in a normal year, FSSA Investment Managers runs an annual client conference in Central London. This includes keynote speeches from external speakers and a variety of presentations from our portfolio managers and analysts.

Here's how another two of our teams have enhanced how they communicate with clients.

How the European Direct Infrastructure (EDI) team has strengthened communication with investors

Since 2013, the EDI team has hosted an Annual Investor Meeting in partnership with one of its portfolio companies on a rotating basis. The event takes place over two days and allows EDI to engage directly with investors. The team provides general business updates, fulfils the regulatory and accounting obligations of the portfolios, takes part in panel discussions and debates and, of particular interest to investors, conducts a detailed site visit of the facilities of the 'host' company.

Because of the COVID-19 pandemic, it wasn't possible to run this event in its usual format in 2020 and 2021. However, the team continued to engage proactively with its investors in 2020 through regular written updates, publications and virtual meetings. In 2021, it plans to build on this engagement with investors by providing virtual site visits to various portfolio companies.

How Stewart Investors reinforces its commitment to transparency

Stewart Investors believes the best way to combat greenwash is transparency and openness. The first step in transparency is full portfolio disclosure. That doesn't just mean a list of names, but a clear and balanced articulation of why it believes a company is well placed to benefit from and contribute to sustainable development, along with the risks faced. The team's interactive portfolio map, accessible to its clients and prospects, includes this information for all the companies it invests in.

At the peak of the first wave of COVID-19 in April 2020, Stewart Investors also published a series of articles related to COVID-19 for clients per strategy.

The team is also trying to increase webinar content and has started a series of interviews between investment team members and company representatives.

Find out more at stewartinvestors.com

We respond to the demands of investors

To meet investor demand, we recently launched a UK-domiciled version of our Responsible Listed Infrastructure Strategy. This complements our Dublin-based strategy, managed by Rebecca Myatt, which we launched in 2017. Similarly, after investors asked for more investment options within their asset class, our Stewart Investors Sustainable Funds Group will expand its current dedicated sustainable fund range in 2021.

We're constantly searching for ways to improve how we engage and interact with our client base. In line with that, we're looking at developing a global investor survey. This would allow us to analyse regional and individual demands and emerging themes around sustainability, and to understand what's especially important in this area to clients globally.

Protecting our clients by exercising their rights and responsibilities

For listed equity investors, proxy voting rights are a crucial asset. Exercising these rights is a core stewardship responsibility. We aim to vote on all possible resolutions at company meetings.

We believe our portfolio managers and analysts are in the strongest position to evaluate and incorporate insights from engagement into investment decisions, and to use their voting rights accordingly. The teams hold many meetings across the business and often discuss ESG issues. But as well as their views, we're also informed by company reporting, company engagements, country-specific policies and engagements with stakeholders.

It's important to stress that, in most cases, our own research is integral to our final voting decision.

In 2020, we voted on 96% of resolutions. And our equities teams voted on 62,143 resolutions. We aim to vote on all resolutions where possible. We don't vote in certain share blocking markets or where there's a conflict of interest

We always put clients' interests first

The overriding principle governing our approach to voting is to act in our clients' best interests.

If a resolution isn't in the interests of shareholders and our clients, we're not afraid to vote against it. Investment teams are responsible for their own voting and, from time to time, different teams may vote in different ways on the same issue.

To manage this, while maintaining the team's independence, we hold discussion forums. In these, teams voting on the same company discuss the key issues (while always complying with regulatory requirements related to collusion or takeover provisions).

Securities Lending Policy

We don't initiate or actively take part in securities lending as, among other things, it doesn't allow us to fulfil our voting rights and responsibilities.

How Fixed Income weighs up rights exercises on bond transactions

Credit analysts and portfolio managers review the bond transaction documents – which include the prospectus, information memorandum, term sheet and security trust deeds – for all bonds bought for our active portfolios and for most of our bonds in passive funds.

We review key terms which include:

- The events of default, its priority in the event of a default (and, for bonds issued by banks, 'bail-in' provisions)
- The presence or absence of change of control clauses
- Coupon step-ups or step-downs if external credit ratings change
- Cross default provisions
- Limitation to asset sales
- Financial covenants
- Early rights to redemption (by issuer or the bondholder)
- The structure of parent company or group guarantees

For green and other sustainability linked bonds, we review the terms and conditions around the ring-fenced assets, conditions for the application of proceeds and the frequency and standard of reporting required for these bonds. We prefer green and sustainability linked bond documents to be certified or prepared by a reputable third party.

If we're not satisfied with the documentation, we'll give this feedback, along with our recommended changes, to the banks co-ordinating the bond transaction. We often look to add further conditions/protections for bondholders. These might include reporting frequency and specific data for green bonds and those issued by private institutions. For weaker quality companies, we might recommend cross default, change of control clauses and coupon step-ups on external ratings downgrades. If the changes we ask for don't happen, or we're still not satisfied with the supporting documentation even after amendments, we won't invest in the bond.

Protecting our clients
by exercising their rights
and responsibilities

Our voting practices and voting record

We use Glass Lewis, the provider of global governance services, to advise on and deliver our proxy votes to the companies we invest in.

Our active listed equity teams voted on 62,143 resolutions at company meetings between 1 January 2020 and 31 December 2020.

We have a 'live' voting tool on our website. This gives us information on our voting decisions immediately after each company meeting. We also give each of our investment teams relevant statistics online in their respective team profiles.

Voting independence

We are also independent thinkers. The table below shows the independent judgement our teams use when they make voting decisions.

	The number of times teams voted against recommendations during 2020
Against proxy adviser	4,639
Against management	7,678
Against both	3,450

The 'live' voting tool is available on our website under "Responsible Investment". Look for "Proxy Voting".

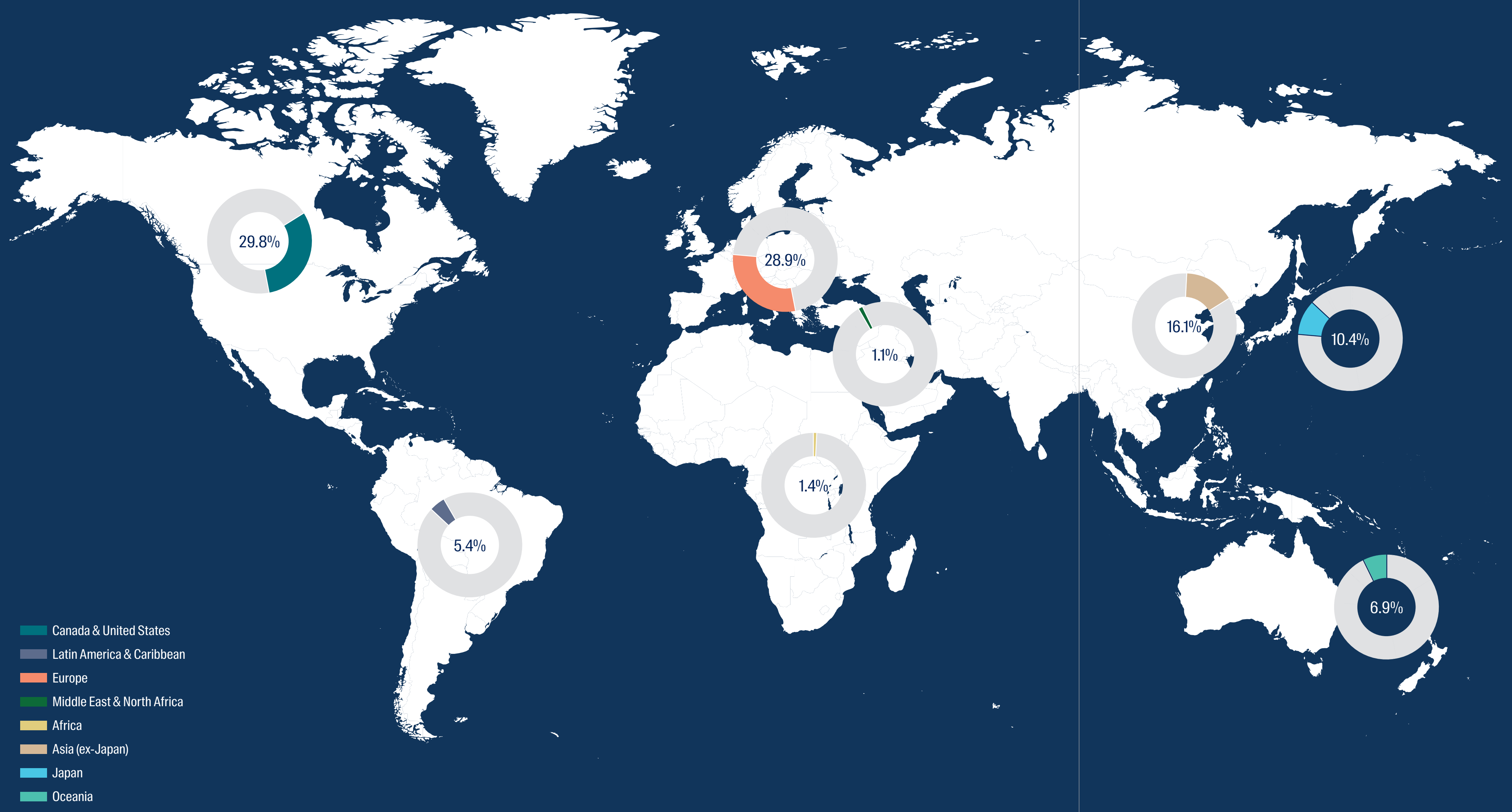
Our proxy voting record by category

	Abstain	Against	For	Grand total
Audit/financials	29	696	3,306	4,031
Capital management	75	275	5,150	5,500
Director election	310	3,394	25,815	29,519
Director remuneration	20	65	1,471	1,556
Executive remuneration	2	553	3,067	3,622
General business	27	184	2,844	3,055
Governance related	144	839	6,949	7,932
M&A	3	8	380	391
Remuneration related		361	2,565	2,926
Shareholder proposal	24	502	788	1,314
Shareholder rights	3	270	2,020	2,293
Others		1	3	4
Grand total	637	7,148	54,358	62,143

Proxy voting information as of 31/12/2020. Source: First Sentier Investors/CGI Glass Lewis

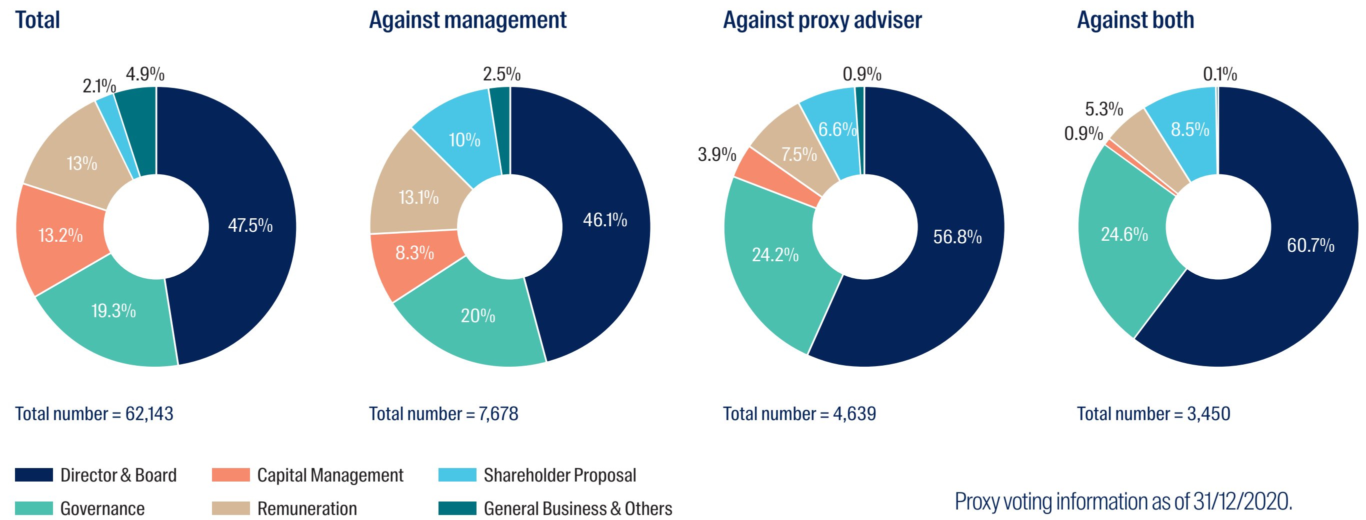
Shareblocking markets and other operational constraints prevented us from voting on 2,671
(4%) resolutions.

Geographical breakdown of proxy votes



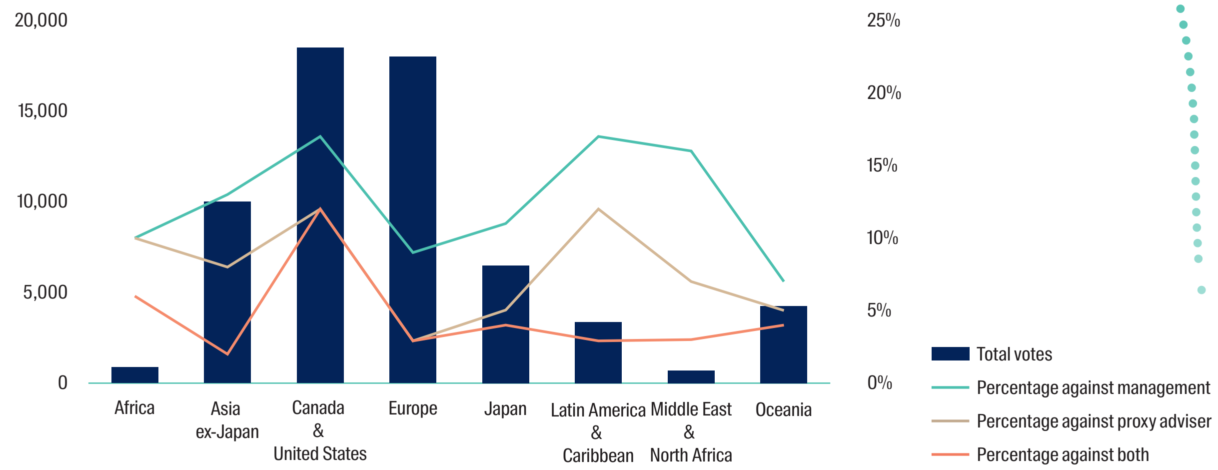
Numbers may not add up to 100% due to rounding.

Where we used our voice most



Proxy voting information as of 31/12/2020.
Source: First Sentier Investments/CGI Glass Lewis

Our proxy voting record by region



Proxy voting information as of 31/12/2020. Source: First Sentier Investors/CGI Glass Lewis

Protecting our clients by exercising their rights and responsibilities

What we voted against and why

Topic: Audit/financials

Our primary reasons: Length of the auditors' tenure

Votes against management: 727

18%

Topic: Capital management

Our primary reasons: Not enough disclosure, the level of dilution and the company's anti-takeover measures

Votes against management: 345

6%

Topic: Director elections and re-elections

Our primary reasons: Not enough female representation, director interdependence and low attendance

Votes against management: 3,537

12%

Topic: Executive or Director remuneration

Our primary reasons: Pay and performance disconnect and excessive compensation (particularly with the impact of COVID-19)

Votes against management: 1,008

12%

Topic: Governance related

Our primary reasons: Auditors' tenure, and supervisors' and statutory auditors' independence

Votes against management: 810

10%

Topic: Shareholders' proposals

Our primary reasons: Management not making enough progress on the issues raised (mainly proposals for additional reporting and disclosure on an issue, need for independent chairs, and reviews and limits on political spending)

Votes against management: 771

59%

Topic: Shareholder rights around authority to issue shares without pre-emptive rights

Our primary reasons: Excessive issuance and poor disclosure

Votes against management: 279

12%

Dublin
First Sentier Investors
Fitzwilliam Hall
Fitzwilliam Place
Grand Canal Dock
Dublin 2 Ireland
Telephone: +353 (0) 1 669 4868

Edinburgh
First Sentier Investors
23 St Andrew Square
Edinburgh EH2 1BB
United Kingdom
Telephone: +44 (0) 131 473 2200

Frankfurt
First Sentier Investors
Westhafen Tower
Westhafenplatz 1 60327
Frankfurt A.M.
Germany
Telephone: +49 (0) 69 710456 – 302

Hong Kong
First Sentier Investors (Hong Kong) Limited
Level 25, One Exchange Square
Central
Hong Kong
Telephone: +852 2846 7566

London
First Sentier Investors
Finsbury Circus House
15 Finsbury Circus
London EC2M 7EB
United Kingdom
Telephone: +44 (0) 20 7332 6500

Melbourne
First Sentier Investors
Level 50
120 Collins Street
Melbourne VIC 3000
Australia
Telephone: +61 3 8628 5600

New York
First Sentier Investors
10 East 53rd Street, Floor 21
New York 10022
United States of America
Telephone: +1 212 848 9293

Paris
First Sentier Investors
George V
27-29 Rue de Bassano
75008 Paris, France
Telephone +33 (0)1 72 25 66 36

Singapore
First Sentier Investors
79 Robinson Road
#17-01
Singapore 068897
Telephone: +65 6538 0008

Sydney
First Sentier Investors
Level 5, Tower 3
International Towers
300 Barangaroo Avenue
Barangaroo, 2000
Australia
Telephone: +61 2 9010 5200

Tokyo
First Sentier Investors (Japan) Limited
12F Yurakucho ITOCIA
2-7-1 Yurakucho, Chiyoda-ku
Tokyo, 100-0006
Japan
Telephone: +81 3 6860 4693

Important Information

The information contained within this document is generic in nature and does not contain or constitute investment or investment product advice. The information has been obtained from sources that First Sentier Investors ("FSI") believes to be reliable and accurate at the time of issue but no representation or warranty, expressed or implied, is made as to the fairness, accuracy, completeness or correctness of the information. Neither FSI, nor any of its associates, nor any director, officer or employee accepts any liability whatsoever for any loss arising directly or indirectly from any use of this document.

Please note that not all capabilities are available in every market or jurisdiction. Please speak to our local representatives on the availability in the respective markets. This document has been prepared for general information purpose. It does not purport to be comprehensive or to render special advice. The views expressed herein are the views of the writer at the time of issue and may change over time. This is not an offer document, and does not constitute an investment recommendation. No person should rely on the content and/or act on the basis of any matter contained in this document without obtaining specific professional advice. The information in this document may not be reproduced in whole or in part or circulated without the prior consent of FSI. This document shall only be used and/or received in accordance with the applicable laws in the relevant jurisdiction.

Reference to specific securities (if any) is included for the purpose of illustration only and should not be construed as a recommendation to buy or sell the same. All securities mentioned herein may or may not form part of the holdings of First Sentier Investors' portfolios at a certain point in time, and the holdings may change over time.

In Hong Kong, this document is issued by First Sentier Investors (Hong Kong) Limited and has not been reviewed by the Securities & Futures Commission in Hong Kong. In Singapore, this document is issued by First Sentier Investors (Singapore) whose company registration number is 196900420D. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore. First Sentier Investors, FSSA Investment Managers and Stewart Investors are business names of First Sentier Investors (Hong Kong) Limited. First Sentier Investors (registration number 53236800B), FSSA Investment Managers (registration number 53314080C) and Stewart Investors (registration number 53310114W) are business divisions of First Sentier Investors (Singapore).

First Sentier Investors (Hong Kong) Limited and First Sentier Investors (Singapore) are part of the investment management business of First Sentier Investors, which is ultimately owned by Mitsubishi UFJ Financial Group, Inc. ("MUFG"), a global financial group. First Sentier Investors includes a number of entities in different jurisdictions.

MUFG and its subsidiaries are not responsible for any statement or information contained in this document. Neither MUFG nor any of its subsidiaries guarantee the performance of any investment or entity referred to in this document or the repayment of capital. Any investments referred to are not deposits or other liabilities of MUFG or its subsidiaries, and are subject to investment risk, including loss of income and capital invested.