

Australian
Ethical



AUSTRALIAN ETHICAL

ETHICAL INVESTMENT POLICY

| Document Owner | Head of Ethics Research |
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| Document Author | Head of Ethics Research |
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1. Purpose and Scope

This Policy applies to Australian Ethical Investment Limited and all Group subsidiaries (Australian Ethical). For the avoidance of doubt this includes but is not limited to Australian Ethical Superannuation Pty Ltd and the investment options within the Australian Ethical Retail Superannuation Fund. The purpose of this Policy is to identify key areas where Australian Ethical will act to further the aims of the Australian Ethical Charter in its investment related activities.

2. Reference

This Policy has been written with reference to:

- FSC Standard No. 20 – Superannuation Governance

This Policy should be read in conjunction with the:

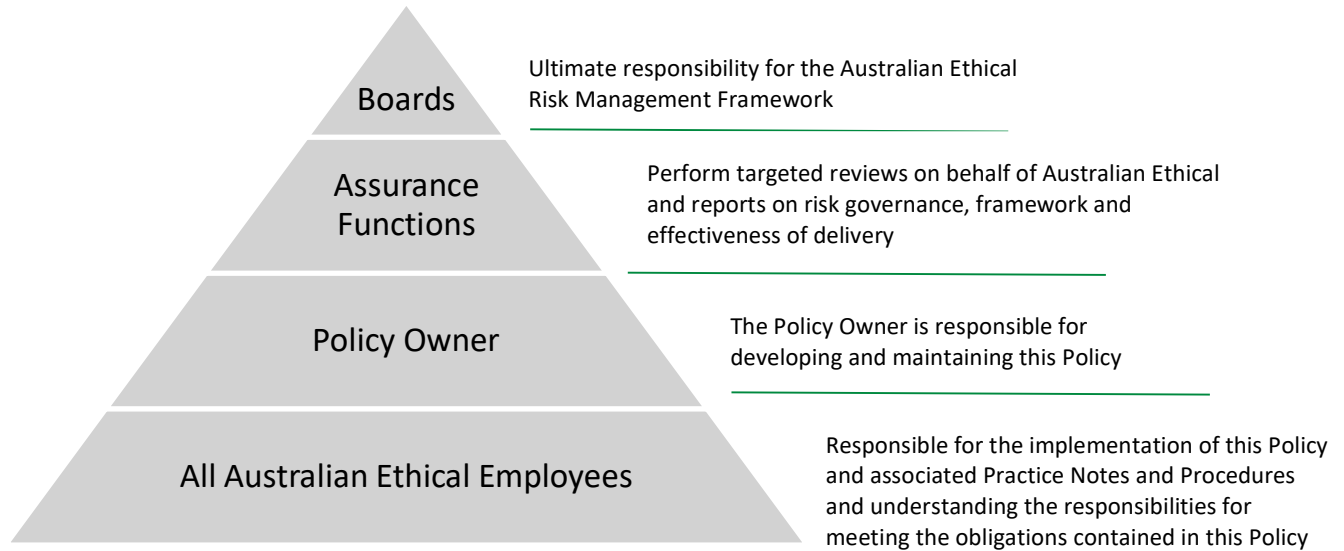
- Investment Governance Framework
- Risk Management Framework
- Conflict Management Framework

3. Risk Management and Capacity

| Risk | Response | Comments |
|--------------------------------|------------------------------|---|
| Risk Appetite Statement | Governance & Decision Making | This Policy relates to Australian Ethical in all capacities and is aimed at outlining the policy principles applicable to ethical investment. |
| Board's Appetite | Minimise | |
| Risk Tolerance | Low | |

Adherence to this Policy will help ensure that the aims of the Australian Ethical Charter will be furthered.

4. Roles and Responsibilities



5. Obligations and Accountabilities

As required by their constitutions, Australian Ethical will when considering any investment, activity or involvement in any business, activity or corporation, attempt to further the aims set out in the Australian Ethical Charter (a copy of which is included in Schedule 1). This Policy outlines the approach to ethical investment within the Group in accordance with the Ethical Charter.

5.1 People, animals and the environment

In assessing what will further the aims of the Australian Ethical Charter, Australian Ethical will take into account positive and negative impacts on people, animals and the environment, including:

| Environmental | Social | Governance |
|---------------------------|---|---|
| • Air and water pollution | • Diversity and equal opportunities | • Anti- competitive behaviour |
| • Animal welfare | • Employee engagement | • Board composition and committee structure |
| • Biodiversity | • Government and community engagement | • Bribery and corruption |
| • Climate Change | • Human happiness, health, education and well-being | • Compliance |
| • Deforestation | • Human rights | • Executive remuneration |
| • Energy efficiency | • Indigenous rights | • Organisational culture |
| • Waste management | • Labour standards | • Public voice |
| • Water scarcity | • Product safety and liability | • Stakeholder dialogue |

5.2 Investment screening

Australian Ethical will only invest where making the investment (taking into account where applicable the exercise of rights associated with that investment) is assessed to be aligned with the Ethical Charter.

5.3 Investment management

Within Australian Ethical's screened universe of investments, our decisions to buy and sell individual investments and to otherwise manage our investment portfolios will be informed by our ethical assessment of companies and industry sectors (including their positive and negative impacts on people, animals and the environment).

5.4 Company engagement and advocacy

Australian Ethical will pursue opportunities to influence better management by companies of their impacts on people, animals and the environment i.e. to increase positive and reduce negative impacts. This may include influencing through private engagement, voting, public praise or criticism, shareholder resolutions and divestment.

5.5 Investment industry influence

Australian Ethical will pursue opportunities to increase the capacity and motivation of other investors to also act to advance the interests of people, animals and the environment. This will include exercising influence as member, office holder and working group participant of industry associations and initiatives, as well as independent advocacy for responsible investment.

5.6 Public policy advocacy

Australian Ethical will pursue opportunities to use its investor influence to promote government policies and public attitudes which advance the interests of people, animals and the environment. This will include submissions for government policy consultations and the exercise of a responsible public investment voice on important issues.

5.7 Measurement and transparency

Australian Ethical will pursue opportunities to measure and report on the impact of its action to further the aims of the Ethical Charter. This is important as a tool both for increasing impact and for demonstrating impact to Australian Ethical members, investors and other clients and stakeholders. At the date of this policy Australian Ethical reports in accordance with standards and guidelines of the Global Reporting Initiative (GRI). Current channels for impact reporting include annual Australian Ethical group sustainability reporting, member communications, social media and the Australian Ethical website.

5.8 Impact priorities

Australian Ethical will regularly review its priority actions in the above areas of positive and negative screening, investment management, engagement and advocacy, and impact measurement and reporting. This will take into account current social, animal and environmental needs and opportunities for us to make the biggest difference, as well as leading and evolving frameworks and standards for impact measurement including IRIS+ developed by the Global Impact Investing Network.

5.9 Collaboration

In the above areas Australian Ethical will pursue opportunities to act both independently and collaboratively with other investors as well as with non-investment companies and groups. At the date of this policy we are an active participant in investor organisations including the UN Principles for Responsible Investment, Responsible Investment Association of Australasia, Investor Group on Climate Change, Financial Services Council and Association of Superannuation Funds of Australia Limited.

5.10 External investment services

Australian Ethical will only use external investment services where the provision of those services to Australian Ethical is assessed to be aligned with the Ethical Charter. For example, we may appoint an external investment manager for some investments where we are satisfied that those investments will be managed in accordance with the Ethical Charter, having regard to the investment mandate and external manager's capabilities.

5.11 Other policies

Australian Ethical will put in place other policies, frameworks and plans to deal with the way it will further the aims of the Ethical Charter in the above areas. These include, at the date of this policy, other policies, frameworks and plans which deal with:

- rules for interpreting and applying different principles of the Ethical Charter
- ethical research and screening process for approval of investments
- particular impacts on people, animals and the environment
- particular industry sectors under the Ethical Charter
- shareholder voting rights, including shareholder resolutions
- our other stewardship, engagement and advocacy activities.

5.12 Governance

The Head of Ethics Research and Chief Investment Officer must jointly approve the following decisions:

- Approval of new or revised ethical frameworks which govern how the principles of the Ethical Charter are applied to different industry sectors and to key ethical issues
- Decisions on contentious ethical screening or engagement issues regarding current or potential investments.

The Head of Ethical Research will report periodically to the senior management team and board of Australian Ethical Investment Limited on these joint decisions. If the HOE and CIO cannot agree on a decision, either may refer the matter to the board for resolution after first giving the senior management team and investment committee the opportunity to consider and contribute to discussion of the issue and to express a view to the board.

The Head of Ethics Research will be responsible for day to day decisions on the ethical screening of investments and on engagements with investee companies on social, environmental and governance issues.

6. Conflicts of interest management

The Conflicts Management Policy addresses all conflicts that might arise from outsourcing, in particular the identification, monitoring, management, mitigation and resolution of conflicts.

7. Training and awareness

Risk and Compliance are responsible for ensuring that all relevant staff are aware of their obligations under this Policy and any Practice Note and that appropriate divisional procedures to meet the requirements of this Policy and any Practice Note are documented and operational.

8. Exceptions

It is not expected that any exceptions to this Policy will occur. In the unlikely event that exceptions are required these must be approved by the Head of Ethics Research and Chief Investment Officer, or their delegate.

9. Adherence with Group Policies, Practice Notes and Procedures

Employees must adhere to, and are responsible for familiarising themselves with, all Australian Ethical's policies, practice notes and procedures.

10. Whistleblower provisions

In certain circumstances an individual may be concerned that unacceptable behaviour, misconduct or other reportable conduct (as defined in the Whistleblowing Policy) has occurred in relation to this Policy but be in a position where he or she believes it would be difficult to pursue through normal channels. The Whistleblowing Policy sets out the guidelines and procedures for dealing with information that may be provided with regard to unacceptable behaviour, misconduct, breaches of the Corporations Act 2001, the Australian Securities and Investments Commission Act 2001, the Superannuation Industry (Supervision) Act 1993 and all other matters relevant to whistleblowing. All employees are encouraged to report any known or suspected incidences of reportable conduct to the Whistleblower Protection Officer (primary contact is Group General Counsel and secondary contact is Chief Risk Officer) in such circumstances.

11. Point of contact

The Head of Ethics Research is the point of contact for matters arising from this Policy.

12. Review cycle

This Policy will be reviewed on at least a two yearly basis or as deemed necessary by the Head of Ethics Research.

Schedule

The Australian Ethical Charter

The Company will order its affairs so as to provide for and to support:

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

The Company will also order its affairs so as to avoid activity which is considered to unnecessarily:

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