Responsible Investment Report 2020

First Sentier Investors

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CEO message

Welcome to our Responsible Investment Report 2020. During a challenging year for investors and companies globally, First Sentier Investors retained its long-held focus on responsible investment (RI) and stewardship.

The pandemic that shaped 2020 forced all of us to look at 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 has become more important than ever.

This report shows how we go about tackling these issues and challenges, where we are in our RI journey, and the work we have done to improve our approach to environmental, social and governance (ESG) issues.

I hope you enjoy reading it, and that it becomes part of a broader conversation about the role we all play in creating a better world. We welcome your feedback and comments on our work.

Mark Steinberg
Chief Executive Officer

Our approach to RI: a snapshot

9.4 TRILLION

Average number of **plastic microfibres** released into the ocean every week from UK washing machines[1]

We are part of a coalition pushing for changes to washing machine manufacturing

62,143 RESOLUTIONS voted on by our equities teams[2]

7% Against Proxy Advisor

12% Against Management

6% Against both

US$4.27 TRILLION

APAC investors representing US$4.27 trillion assets under management are **working to improve the lives of an estimated 40 million people in modern slavery**[3]

30% Club

A coalition advocating for 30% women on ASX 300 boards by end 2021[4]

31% women on FSI subsidiary boards

15

Number of RI-focused investor and industry coalitions we participate in globally

6 out of 7

actively managed equities portfolios have lower carbon emissions than their benchmark

40:40 VISION

A coalition of investors advocating for **40% women in senior executive roles by 2030**[5]

29% The current proportion of women in FSI's executive leadership team

23%

Our actively managed equities portfolios are **23% less carbon intensive** than aggregated benchmark[6]

UN PRI Ranking[7]

A+ for 7 of 8 categories

A for 1 of 8 categories

RIAA Ranking: Leader

1 https://www.thewi.org.uk/__data/assets/pdf_file/0007/327418/WI_EndPlasticSoup_Report_Stakeholders.pdf

2 Proxy voting information for 12 months to 31 December 2020

3 Investors Against Slavery and Trafficking (IAST) APAC

4 https://30percentclub.org/about/chapters/australia

5 https://www.hesta.com.au/campaigns/4040-Vision.html

6 First Sentier Investors, MSCI Data as at 31 December 2020

7 2020 PRI Assessment Report

Our strategy is to lead change

As long-term investors, we know that the investment decisions we make today impact communities in the future. We review our RI strategy every three years to build on our approach to stewardship, and to ensure we are proactively thinking about how to address emerging issues in our investment processes. We revisited our 2019 strategy throughout 2020 to better position our business to manage investment issues emerging from the pandemic, and to consider the impact that the companies we invest in have on vulnerable communities and ecosystems.

This includes a focus on the following issues across our investment universe:

Climate change

Modern slavery

Diversity

Biodiversity

These issues are important to our clients and we expect them to grow in importance as company disclosure and public discourse are driven by regulatory change and consumer demand. In order to address these systemic issues, we have established and joined working groups with other institutional investors, as well as developed frameworks for research, analysis and company engagement.

We believe that when it comes to RI, active management is much more than a simple box-ticking exercise. Every decision about where we allocate capital is a vote on a company's fitness to be in business. Keeping ahead of regulatory change, to complement our rigorous programme of individual company engagement, we band together with like-minded institutions to set higher expectations for companies seeking the support of our investors' capital. Recognising that no company is perfect, we encourage management to examine their supply chains for modern slavery, consider diversity in their workplace, and scrutinise the impact of their operations on communities and ecosystems. We invest in companies that are willing to discuss and improve their practices, and which recognise that they are on a journey to become better global citizens, just as we are.

This approach is in line with community expectations. A survey by Responsible Investment Association Australasia found that 9 in 10 Australians believe it's important that their financial institution invests responsibly and ethically [1]. We are seeing this same trend in client conversations occurring across the markets we operate in. With a greater emphasis on the social aspect of ESG comes a greater need for transparency from the investment management industry on how these issues are managed.

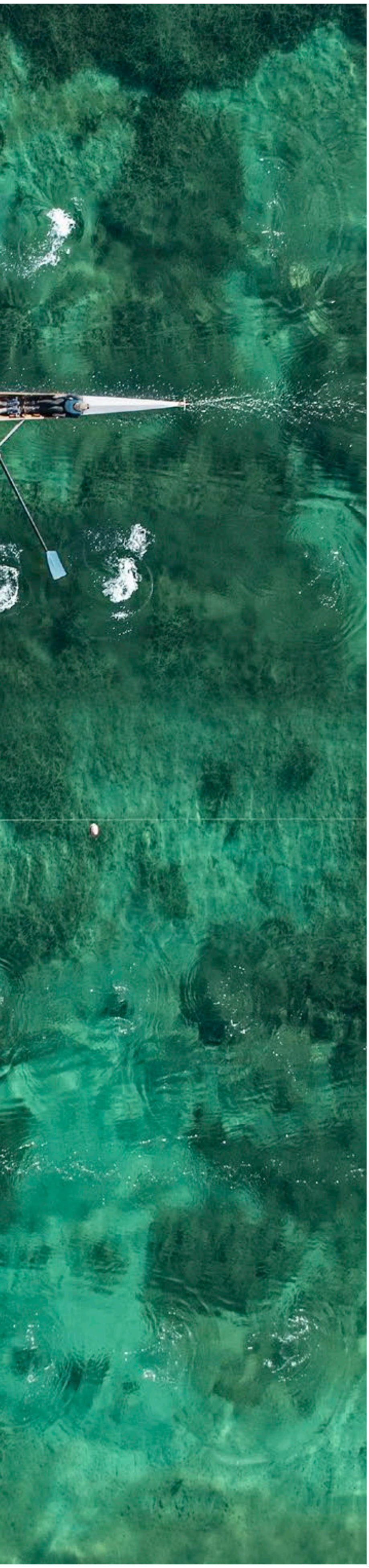
Our 13th annual *Responsible Investment Report* provides a transparent view of our strategy, explores key industry initiatives and shares case studies detailing how we are working towards shifting the way we engage with companies. There is still a long way to go as we explore strategies to identify, analyse and engage with emerging RI issues across the AU$228 billion* we invest on behalf of clients in equities, fixed income, unlisted infrastructure and multi-asset solutions.

A survey by Responsible Investment Association Australasia found that 9 in 10 Australians believe it's important that their financial institution invests responsibly and ethically.

[1] Responsible Investment Association of Australasia, From Values to Riches 2020, www.responsibleinvestment.org/wp-content/uploads/2020/03/From-Values-to-Riches-2020-full-report.pdf

* Source: First Sentier Investors as at 31 December 2020

Benchmarking our progress



In 2020 we scored an 'A+' rating in 7 of the 8 categories against which we are assessed and an 'A' in the 8th.

Our approach to RI and stewardship is designed to deliver the best possible long-term outcomes for our clients. As industry practice continues to evolve, we continue to look for standards and industry codes to benchmark ourselves against. These help us both to identify areas where we can make improvements and to guide the development of our reporting and disclosure mechanisms, in turn enabling us to increase transparency.

Two important independent standards against which we benchmark ourselves are the Principles for Responsible Investment (PRI) Assessment ratings and the Responsible Investment Association of Australasia (RIAA) Benchmark Report.

Our PRI Assessment results provide a useful independent benchmark of our progress against industry peers. In 2020 we scored an 'A+' rating in 7 of the 8 categories against which we are assessed and an 'A' in the 8th. Our results since 2014 are shown below and our full 2020 PRI Assessment Report can be found on our website.

Module	2014 (pilot)	2015	2016	2017	2018	2019	2020	Median manager 2020
Strategy & Governance	A	A	A+	A+	A+	A+	A+	A
Listed Equity Incorporation	A	A+	A+	A+	A+	A+	A+	A
Listed Equity Active Ownership	A	A	A	A	A+	A	A+	B
Fixed Income SSA	B	B	A+	A+	A+	A	A	B
Fixed Income Corporate	A	A+	A+	A	A	A	A+	B
Fixed Income Corporate Financial	N/A	N/A	A+	A	A+	A+	A+	B
Fixed Income Securitised	N/A	N/A	B	A	A+	A+	A+	B
Infrastructure	A	A	A+	A+	A+	A	A+	A

Each year, RIAA assesses the RI practices of asset managers in its annual benchmark report. Investors are rated against four key drivers for RI: walking-the-talk, managing risk, building better beta and allocating capital towards solutions. **In 2020, we were one of only 44 managers (from 165 assessed) classified as a leader.** This assessment was on the basis of RIAA's expanded scorecard to determine leading practice, which is a reflection of increased commitments to RI from investment managers.

Our approach

While each of our 17 investment teams has its own distinct investment process, they all share a commitment to RI. Together we aspire to be a global leader in responsible investment and stewardship practices and we believe that our diverse investment teams are a key strength in achieving that aim.

Australian Equities, Growth

ESG risks are primarily identified by a rigorous company engagement program. The team equally weights its own assessment from these engagements with quantitative measures to generate a proprietary ESG score. Analysts incorporate this score together with fundamental analysis in determining an overall stock rating (Buy/Hold/Sell). The team believes that assessing companies' ESG disclosure encourages better performance in these areas.

Australian Equity Income

The team works in partnership with other investment teams within the firm. As part of this approach, the team draws upon the analyst research from various investment teams, which includes the identification of any relevant ESG issues.

Australian Small and Mid-Cap Companies

ESG considerations influence all the team's investment decisions, given that sustainability is one of the six key criteria used in its evaluation of companies. ESG issues are also frequently raised with senior management and board members during its extensive engagement with companies. These discussions make an important contribution towards its investment view. In cases where ESG factors are determined to have a material impact on profitability, the impact is quantified and its influence on the company's valuation and financials is taken into account. These considerations ultimately influence the selection of stocks in the portfolio.

Global Property Securities

Responsible Investment has been deeply ingrained in the team's culture for over a decade. ESG considerations are directly embedded into two parts of its investment process. Firstly, the team aims to mitigate ESG risks in the initial screening of its investment universe. Secondly, ESG factors directly feed into its valuation methodology, whereby securities with better ESG scores achieve higher intrinsic valuations and are therefore favoured in its stock selection process. While the team uses third party research, in-house research and direct engagement with companies remains the most important source of reference for ESG information, given the team's intricate understanding of the global property securities sector.

Global Listed Infrastructure

ESG issues are fundamental to infrastructure companies, given they have significant service obligations and moral accountability to the communities in which they operate. ESG-related criteria has always been fully incorporated into the team's investment process, and account for 25% of the overall quality score it assigns when considering investment. Company engagement, to encourage ESG best practice for the benefit of investors, is a key part of the team's investment approach.

FSSA Investment Managers

To FSSA, ESG and sustainability are not just labels, but a set of values by which they operate. Their investment universe consists of countries which are among the most vulnerable to environmental challenges, suffer from severe inequality, and can be highly susceptible to corruption. For these reasons, since the inception of the team, the focus has been on identifying quality companies and management teams that address these challenges head-on and, as a result, deliver better outcomes for all stakeholders. FSSA invest in companies that contribute meaningfully to sustainable outcomes and where there is the management foresight, technology and ideas to address changing societal and environmental expectations. Companies that do not deliver sustainable value for their customers, employees, suppliers and the larger community are unlikely, in FSSA's view, to be rewarding long-term investments. It is the responsibility of each analyst to identify ESG opportunities and risk and incorporate into all bottom-up company analysis, valuations, stock selection and engagement.

Stewart Investors

At the heart of the team's philosophy is the principle of stewardship – careful, considered and responsible management of its clients' funds which are articulated in the team's Hippocratic Oath. The investment team is responsible for all company analysis including ESG, identifying engagement priorities, monitoring and engaging our investments and for making all voting decisions. Sustainability considerations are an integral part of its investment philosophy and stock-picking process. The team's focus is on evaluating the sustainability risks and opportunities of companies based on fundamental bottom-up research. For the Sustainable Funds Group within Stewart Investors, sustainability must be core to a company's business model, not an optional extra.

Realindex Investments

Responsible investment and stewardship principles are important to its approach to investment management and an area of ongoing research. The team's approach to ESG integration can be grouped into 3 key areas: 1) encourage companies to effectively manage the ESG risks and opportunities facing their businesses through proxy voting and engagement; 2) understand ESG risks in our portfolios; and 3) integrate ESG factors and considerations into our investment processes to enhance performance and/or manage risk.

Fixed Income

ESG issues can have a significant bearing on default risk. Historically, poor corporate and regulatory governance have been recognised contributors in most corporate failures. Consequently, ESG risks are identified as part of the team's bottom-up credit research process to help manage default risks in bond portfolios. Its ESG assessment has an important bearing on proprietary internal credit ratings that are assigned to every credit we review, in turn influencing portfolio construction decisions. As well as this bottom-up research, ESG factors are considered as part of its position sizing discipline.

Unlisted Infrastructure

The team has the distinct advantage of being able to engage directly with its portfolio of companies via board representation and/or workshops with management, giving it the opportunity to set ESG targets, develop initiatives and help drive cultural change.

Multi-Asset Solutions

The team's approach to RI is integrated within the investment process of the objective-based funds and can be incorporated into bespoke mandates. The RI approach encompasses ESG considerations as well as the use of ethical screens based on nine themes which can exclude specific 'red flag' companies or industries, such as those involved in fossil fuels. These screens are applied consistently across all asset classes. Furthermore, the team incorporates ESG considerations when voting on all company resolutions where it is able to do so.

Climate change

Why is it important to us?

Climate change and global warming pose systemic risks to society and the global economy. It impacts 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 which has already impacted, and will continue to impact, different assets in different ways.

What is First Sentier Investors 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 which 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

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

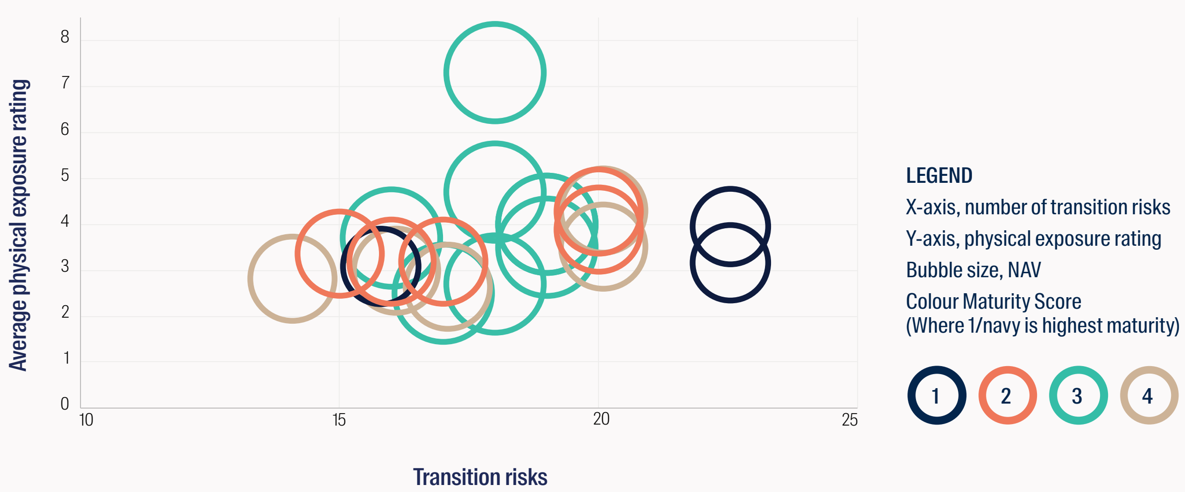
Unlisted infrastructure Climate Change Portfolio Assessment

In 2020, our Unlisted Infrastructure team conducted an assessment of climate change risks across the portfolio. With assistance from expert advisors, we conducted an initial, high-level portfolio scan. Infrastructure investing is a non-homogenous asset class and this held true again with our assessment of climate change impacts.

The chart below summarises the results of our Climate Change Portfolio Assessment.

- The physical exposure rating quantifies the low to extreme rating scale and is then averaged across the list of identified perils for each business. The exposure rating is considered 'unmitigated', i.e. it does not consider any resilience measures planned or in place at any business.
- The number of transition risks is shown along the X axis. These were identified in the portfolio assessment and First Sentier Investors workshops. It is important to note this scale only considers the absolute number of risks identified and not their relative impact. There were also a large number of opportunities identified (and not shown in the chart): in addition to downside risks faced by businesses, there are potential value creation opportunities for those moving ahead of the curve and tackling climate change.
- Organisational maturity in respect of climate change impacts was assessed on a numerical scale, with 1 being the highest and 4 being the lowest maturity level. Our investigations revealed a good base level understanding of near-term risks and opportunities and a level of disclosure typical of the industry. However, the colour-coded maturity scores shown in the chart demonstrate a range of outcomes and we are striving to improve value-adding governance and disclosures across the portfolio.
- Our work on climate change investment impacts is just the start of our work in this area and we will continue to seek ongoing and further improvements. This Climate Change Portfolio Assessment project provided a good base level of information and acts as a springboard for further action, where we work with our portfolio companies to improve their governance of climate change impacts, integrate their business plans with the transition to a low carbon economy, and improve climate related disclosures to be best in class.

Physical exposure rating and transition risk count per asset portfolio



Multi-asset solutions fossil fuel divestment

In 2020, after robust analysis, our Multi-Asset Solutions team made the decision to divest from direct fossil fuel assets in our objective-based portfolios. The chart below shows the tracking error and carbon footprint reductions of various approaches we examined before confirming our current approach.

In the below analysis, we looked at the number of stocks excluded from the MSCI All Country World Index (ACWI) as a percentage. Secondly, we measured tracking error[1] to ensure it fits within our portfolio construction process. We then examined the relative reductions of the carbon emissions from the portfolios, and both current and potential emissions from reserves.[2] The reserves are important for assessing the stranded asset risk, wherein if the world transitions to renewable energy, these assets may become worthless.

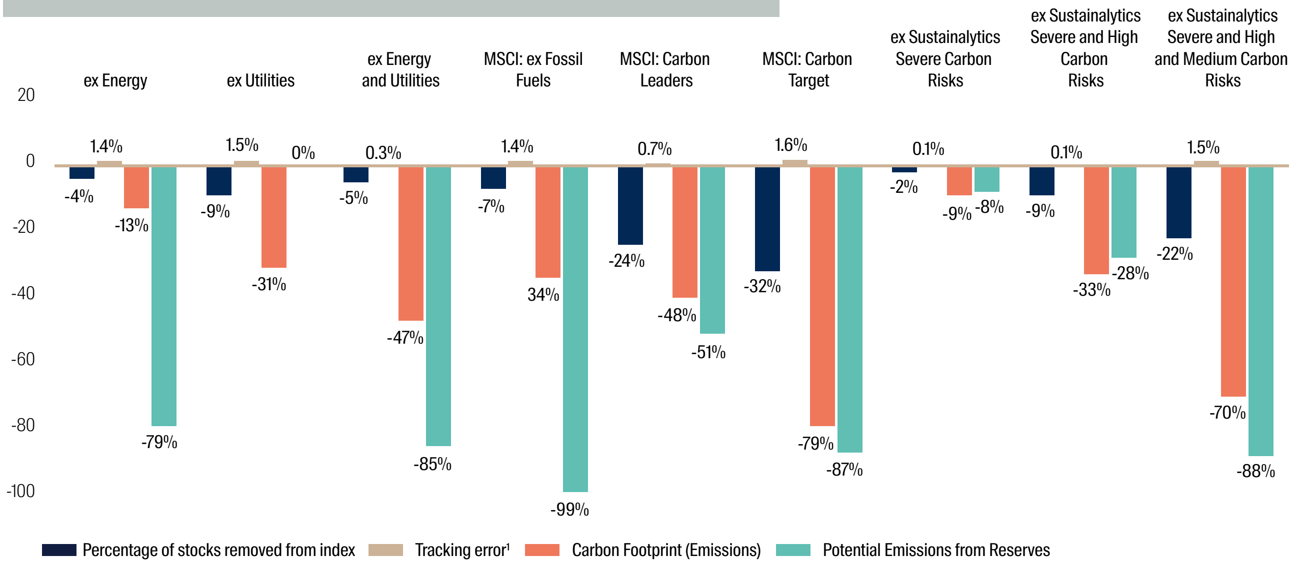
The analysis started with the first three exclusion sets from the left side of the chart, from which we implemented some simple exclusions to set a baseline. The Energy and Utilities sectors are excluded because they have the largest carbon footprints according to research by MSCI. This research showed the Utilities sector is currently the largest consumer of fossil fuels, but the energy sector has the largest potential consumption of fossil fuels (i.e. fossil fuels not yet extracted from the ground).

The next three indexes were constructed by MSCI (shown with 'MSCI' in the headings) by removing companies with higher carbon footprints. Each index excluded a different number of companies, then used multiple approaches to reweight the stocks within the portfolio, in order to reduce the tracking error with respect to the traditional ACWI index.

In the final three (on the right) we looked at baskets of stocks created using the 'carbon risk' data provided by Sustainalytics.[3]

We excluded stocks with carbon risk related to their operations and carbon risk related to their products (two separate data points). We excluded companies based on Sustainalytics' classification of carbon risk levels, beginning by only removing companies with a severe level of risk, and then progressively removed more categories such as high and medium levels of carbon risk.

Fossil Fuel Divestment Options: Tracking Error and Carbon Reductions



Fossil fuels. Exclude any company that has Severe, High or Medium levels of carbon risk as categorised by Sustainalytics[3]. Exclude any company in the Coal & Consumable Fuels or Oil & Gas Exploration & Production GICS subindustries. Exclude any company that extracts Thermal Coal. We also exclude companies that generate power or has the capacity to generate power generation from Thermal Coal. Exclude any company that conducts Oil Sands extraction or has capacity for extraction.

[1] Tracking Error calculated using Bloomberg Risk Model (Global), with index holdings snapshot as at 19/6/2020.
[2] Carbon emission data produced by MSCI, total emissions per company. Each basket was then reweighted relative to the MSCI ACWI benchmark.
[3] Defined by Sustainalytics as the degree to which company value is at risk, driven by the transition to a low-carbon economy.

Feature

Global listed infrastructure and Southern Company Climate Action 100+ net zero commitment

Given the significant service obligations and their moral accountability to the communities in which they operate, ESG issues are fundamental to infrastructure companies.

Climate change risks and opportunities are key drivers for electricity utilities in particular, and we look to invest in utilities that can decarbonise their power generation and generate affordable clean energy. Accordingly, our Global Listed Infrastructure team has been an active participant in Climate Action 100+ since its launch in December 2017.

Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Over 540 investors responsible for more than $US52 trillion[1] in assets under management are engaging with companies as part of this coalition.

In May 2020 one of the companies that we have been actively engaging with, Southern Company, announced an updated climate strategy with a goal of achieving net zero emissions by 2050. Southern Company is one of the largest electricity utilities in the U.S., and the largest wholesale provider in the Southeast. This step reflects the importance of taking action to combat climate change and act in the interest of long-term stakeholders to confront both the risks and growth opportunities related to climate change. As long-term investors in listed infrastructure assets globally we look forward to continued engagement with Southern Company in the future.

[1] https://www.climateaction100.org/

Reporting on progress

This table shows the following key carbon metrics for our actively managed listed equities teams, as recommended by the Taskforce for Climate-Related Financial Disclosures (TCFD):

883/954
Companies covered

AUD101,446million /107,348million
$covered

260.7 tCO2e
Weighted average intensity
(Scope 1+2/$million Sales)

-23.0%
Different weighted average intensity vs benchmark (aggregated)

9,414 tCO2e
Carbon footprint
(tCO2e/$m invested)

2.7
Average fossil fuel companies

6,764,864 tCO2e
Total carbon emissions (Scope 1&2)
5,946,011 tCO2e (Scope 1)
818,855 tCO2e (Scope 2)
23,074,728 tCO2e (Scope 3)

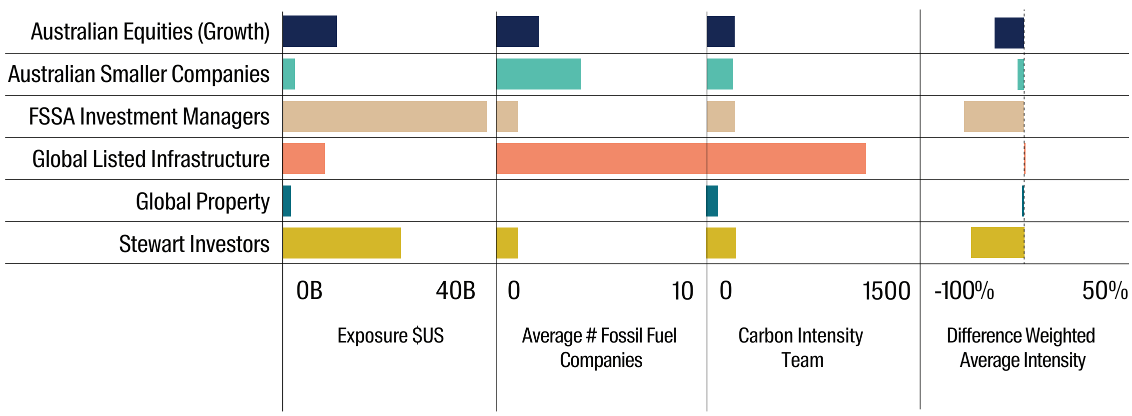
Carbon footprint: the carbon emissions of a portfolio per $m invested. Scope 1 and 2 emissions are allocated to investors based on an equity ownership approach (if an investor owns 10% of a company's total market capitalisation, then they own 10% of the company and therefore 10% of the company's emissions). This is then normalised by portfolio value.

Weighted average emissions intensity: portfolio weighted average of each company's greenhouse gas emissions intensity (scope 1 & 2) per $m sales.

Total carbon emissions: this metric measures the absolute greenhouse gas emissions associated with a portfolio (Scope 1 and 2) expressed in tCO2e*. Scope 1 and 2 emissions are allocated to investors based on an equity ownership approach (as with the carbon footprint).

Fossil fuel companies: average number of fossil fuel companies per portfolio. This includes companies who mine fossil fuels as well as generators of fossil-based energy sources as well as other users of fossil fuels.

Actively managed listed equity teams emissions profile



Carbon footprint reports for each investment team, and an explanation of how each measure is calculated, is available on our website.

Source: First Sentier Investors, MSCI Data as at 31 December 2020. *tCO2 refers to tonnes of carbon dioxide equivalent

Challenges

Understanding and acting on the various risks and opportunities posed by such a complex area is not without its challenges. One persistent challenge we have faced is around data reliability and availability. Company disclosure of climate-related data remains low and often of poor quality. Two challenges we have faced this year have been:

- The availability of high quality data on the physical risks of climate change for listed equities and fixed income.
- Data becomes stale very quickly, and when the most recent reported data is from 2018, it does not give an accurate picture of the risks and opportunities inherent in a portfolio today.

However, a lack of data reliability and availability is not an excuse for inaction; it merely highlights the importance of our own research and engagement with companies.

We actively encourage companies to take this issue seriously and report high quality data in line with Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Across all ESG issues we need sustainability reporting that has the same rigour as financial reporting and we are aware of our responsibility as active owners to encourage this from the companies we invest in.

Future plans

In the coming year, we plan to build on the work we have done in 2020 to understand where our portfolios are aligned to the transition to a net zero economy and where we need to do more work.

We have been piloting the implementation of the draft Institutional Investor Group on Climate Change Net Zero Investment Framework across several teams and will continue to do this in the year ahead. As it has now been several years since our initial TCFD aligned reporting we also plan to revisit this disclosure in 2021, with a view to improving the information we are publishing.

Modern slavery

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.

Why is it important to us?

The International Labour Organization has estimated that there are over 40 million victims of modern slavery.[1] Women and girls account for 71 per cent 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 is First Sentier Investors 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.

[1]International Labor Organization, 2016

Feature

Investors Against Slavery and Trafficking (IAST) APAC

Convened by First Sentier Investors, 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 an alliance of Asia-Pacific investors working together to prevent and address modern slavery and human trafficking risks.

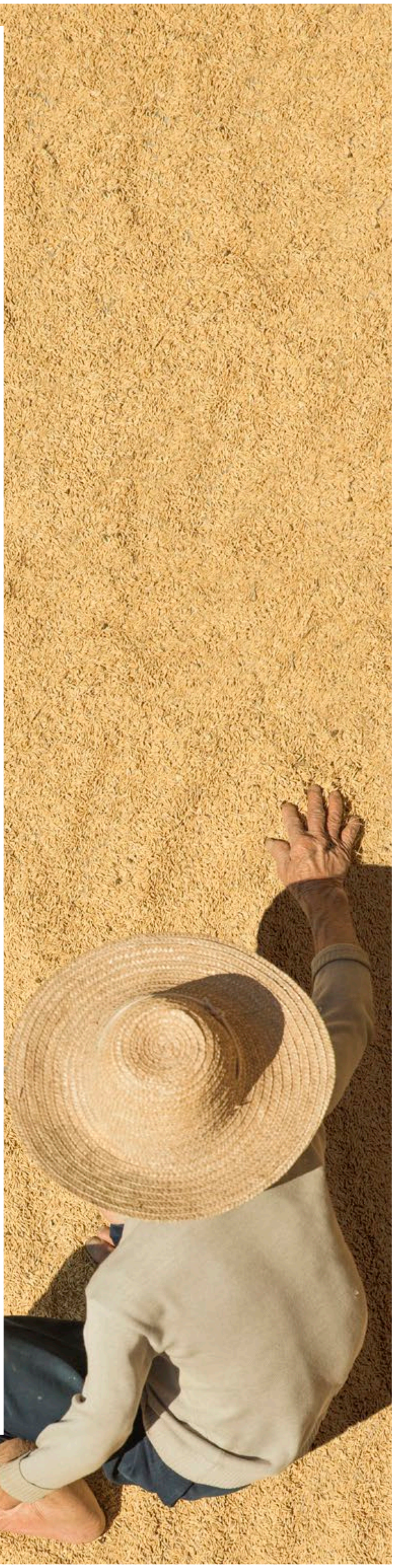
The first act of this coalition was to send out an investor statement to ASX100 companies on investor expectations for modern slavery reporting. The statement has been signed by over 20 investors with a collective USD$4.27 trillion assets under management[1] and is designed to address the harms of modern slavery.

Given that most Australian companies are only beginning to report under the Modern Slavery Act, the group felt that there was a crucial window of opportunity to set out expectations for these reporting entities. The aim was to ensure 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 which is being run in the UK. The purpose of the initiative is to:

- Systematically and consistently raise concerns with companies about the risks of modern slavery.
- 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 amongst 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. "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."

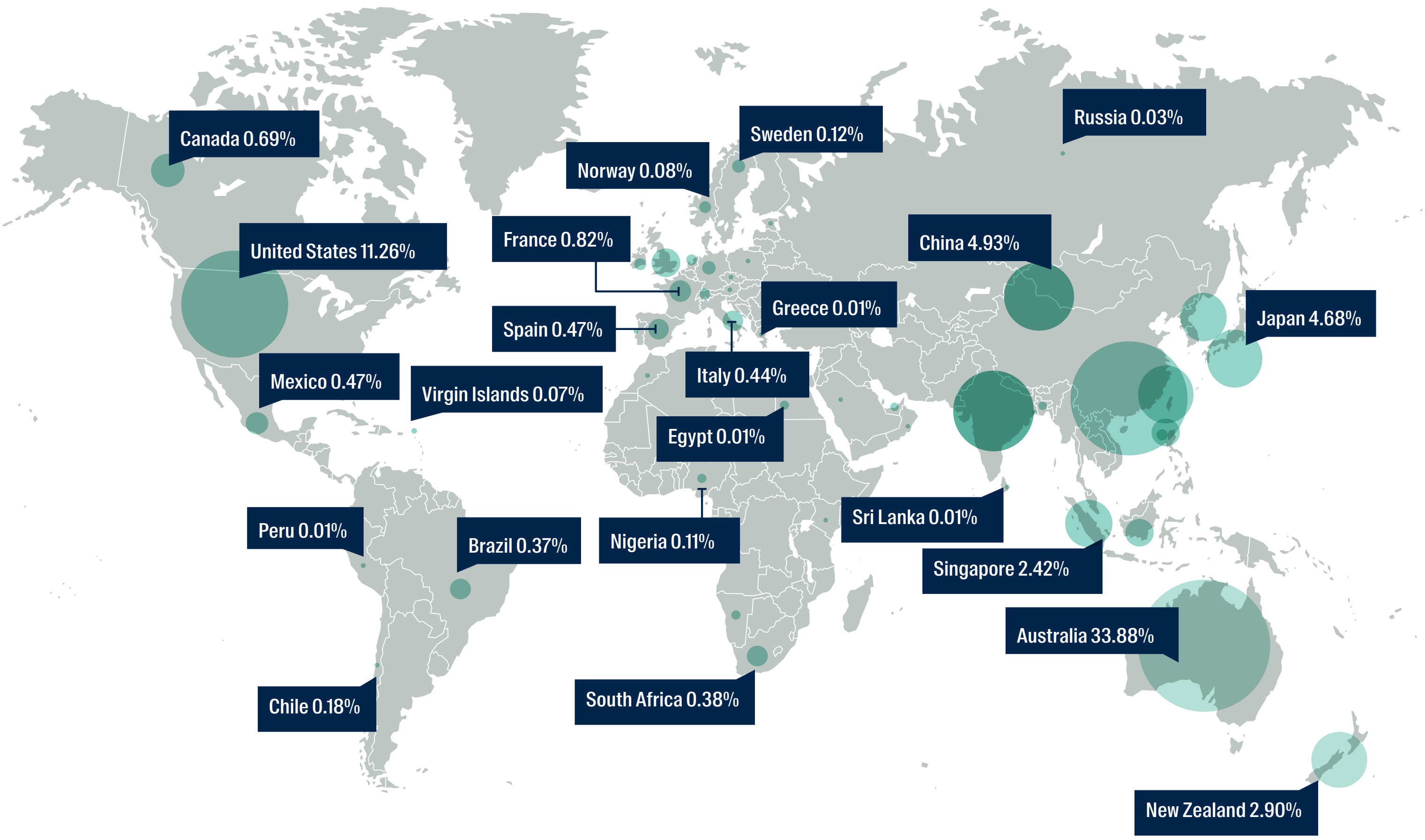


[1] As at 30 September 2020

Reporting on progress

One of the challenges we identify below is risk mapping, and we have been working hard over the past year on ways to use the data that is available to better identify risks.

The country map below taken from our Modern Slavery Portfolio Analytics tool* shows the levels of modern slavery risk across various countries where we invest in listed equities and corporate fixed income. The size of the bubble relates to our exposure to companies across these asset classes (expressed as percentages in the labels), and the colour of the bubble relates to modern slavery risk (darker green = higher risk). This data is taken from the Global Slavery Index 2018. As you can see from the map, our greatest risks are concentrated in Asia, hence why we decided to focus on this region as part of the IAST APAC initiative profiled on the previous page.



Source: First Sentier Investors, Walk Free Portfolio holdings data as at 31 December 2020

* A snapshot of some of the key modern slavery risks for an individual investment team or portfolio.

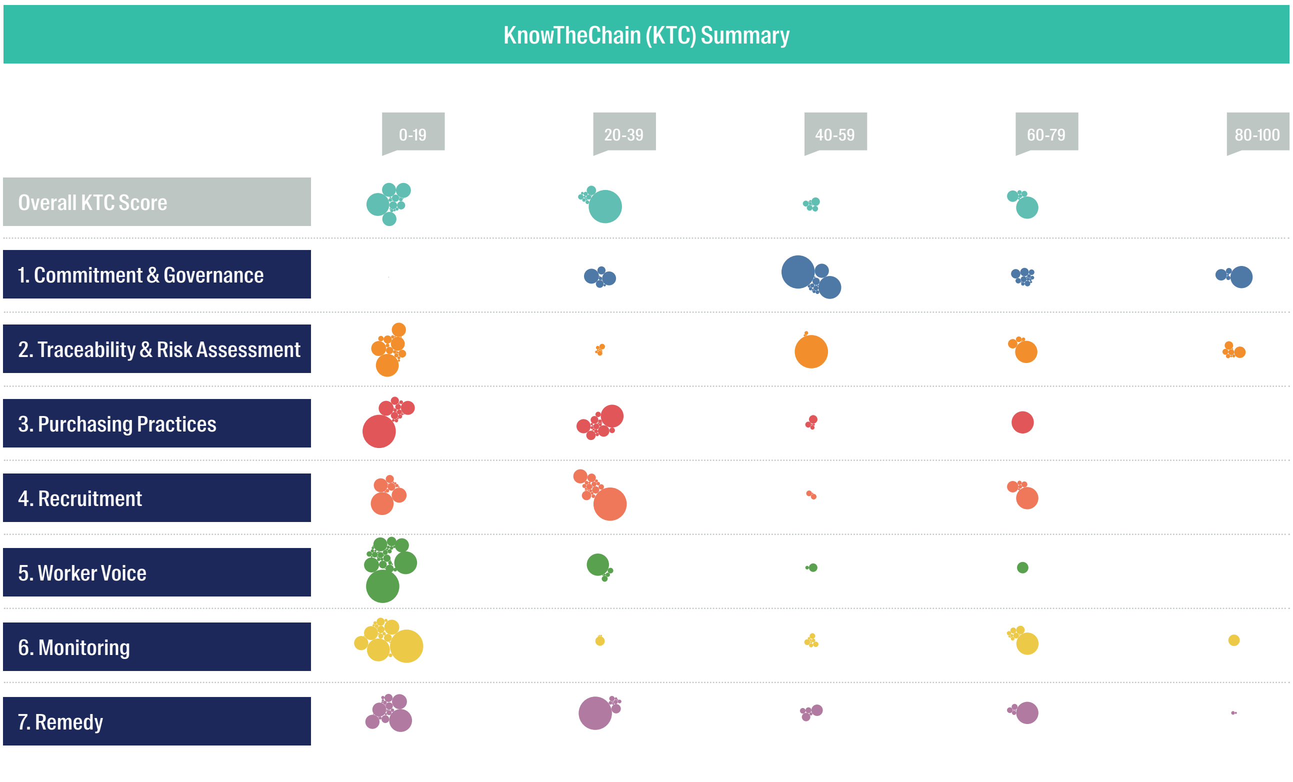
Spotlight on the ICT sector

The map on page 23 only shows direct risk based on where a company is headquartered, and therefore poorly illustrates supply chain risk where much modern slavery occurs, particularly for companies headquartered in developed markets. The Global Slavery Index also identifies key products at risk of modern slavery which are imported by G20 countries.

The products they identify as being most at risk are laptops, computers and mobile phones. In 2015 Walk Free estimates that over US$400 billion worth of these products were imported by G20 countries from at-risk countries (primarily China and Malaysia)[1]. Accordingly, we are monitoring information communications and technology (ICT) companies within our portfolios, supported by research from organisations like KnowTheChain.

In 2020, KnowTheChain released its latest ICT Benchmark[2], which assessed the 49 largest ICT companies globally on their efforts to address forced labour risks within their supply chains. In the chart below you can see how these companies perform overall and on 7 indicators measured by KnowTheChain. The size of the bubble indicates the size of our investments in these companies across listed equites and fixed income. As you will see from the data, with an average score of 30/100, there is room for significant improvement among these companies. While many have made commitments to addressing this issue as well as some progress on risk assessment, there is more to be done in terms of implementation.

While it is difficult for benchmarks such as these to tell the full story of a company's efforts to address these risks, they are a very useful input into our risk identification and engagement approach.



[1] https://www.globalslaveryindex.org/2018/methodology/g20-analysis/
[2] https://knowthechain.org/benchmark/
Graph source: First Sentier Investors, KnowTheChain. Portfolio holdings data as at 31 December 2020

Challenges

The number of victims and the complexity of modern supply chains means there are many challenges when scrutinising companies for signs of modern slavery.

Key challenges that we have encountered this year include:

How to effectively identify risks given that most of the data is at country and industry level. We have been exploring different proxy indicators to identify vulnerability to modern slavery, including examining the workforce and purchasing practices of the companies we invest in.

How we can have the biggest impact with our engagement. We feel that given the systemic nature of the issue, modern slavery is well suited to collaborative action. This is something we expect of the companies we invest in, and similarly we are trying to collaborate with other investors and stakeholders more broadly. In 2020 this led us to launch an internal collaborative engagement, to convene the IAST APAC initiative, to participate in the Bali Process Government and Business Forum Financial Sector Consultation and to invite experts to present to our modern slavery working group.

The COVID-19 pandemic not only increased modern slavery risks across a number of industries and countries, it also changed the risk profile as global supply chains were disrupted overnight. In response to this we launched an internal collaborative engagement to engage with companies we invest in across the healthcare supplies and apparel industries to ask how they are addressing increased modern slavery risks amidst the pandemic. We also joined an engagement run by CCLA on debt bondage among migrant workers in the Middle East.

To foster a broader industry conversation on some of these challenges, in July 2020 we recorded a podcast with Dr James Cockayne on this topic. You can find it on our website: https://www.firstsentierinvestors.com.au/au/en/institutional/insights/latest-insights/podcast-modern-slavery-challengers-for-investors.html

Future plans

In response to the challenges outlined above we have been working to improve our risk mapping tools. We will be rolling out interactive portfolio level modern slavery reporting to all investment teams in early 2021 and to clients later in the year.

We will continue to chair and actively participate in IAST APAC, and we hope that our investment teams will take learnings from this engagement that can be applied within their individual companies.

In Q1 2021 our investment teams will complete their first reporting in accordance with the qualitative and quantitative indicators outlined in our Modern Slavery Toolkit. This will allow us to monitor the effectiveness of our approach and continue to develop our process going forward.

Diversity

Why is it important to us?

First Sentier Investors believes that representation matters in business and recognises that diversity goes beyond gender, with factors such as race, religion, socioeconomic background, sexuality and disability being of equal importance. A diverse workplace fosters an environment of informed decisions and stakeholder engagement.

We believe gender diversity is a business issue as well as an ethical one. There is a raft of research demonstrating that gender diversity contributes to better business and economic outcomes. This includes:

- An increase in the share of female 'top-tier' managers by 10 percentage points or more led to a 6.6 per cent increase in the market value of ASX-listed companies[1].
- Improving gender equality would lead to an increase in EU (GDP) per capita from 6.1% to 9.6%, which amounts to €1.95 to €3.15 trillion[2].

What is First Sentier Investors doing?

We are working to improve female representation within the firm, as well as engaging with companies about the number of women in leadership roles. We have focused on Sustainable Development Goal (SDG) 5.5, seeking to ensure women's full and effective participation in leadership at all levels of decision making in the companies in which we invest. This report is primarily focused on our investment activities, however we also publish a Gender Diversity Scorecard, which is designed to track progress in our own organisation and highlight areas for improvement as we work towards attracting and retaining more women.

In 2020, First Sentier Investors joined the 40:40 Vision initiative, with CEO Mark Steinberg appointed to the steering group. Convened by super fund HESTA, the initiative is designed to increase the proportion of women in senior leadership across Australia's largest listed companies to at least 40% by 2030. This is in addition to our membership of the 30% Club, which advocates for boards to have 30% female representation.

Initiatives such as the 30% Club and 40:40 Vision are part of our firm's commitment to RI and creating positive change through company engagement.

Improving gender equality would lead to an increase in EU (GDP) per capita from 6.1% to 9.6%, which amounts to €1.95 to €3.15 trillion.

At a portfolio level, many investment teams are taking a proactive approach to monitoring gender diversity and by including it in their investment criteria and engaging with companies they believe to be falling short.

For example, gender diversity is one of the quantitative inputs our Australian equities growth team uses in their investment process. To achieve the maximum score for board diversity, female representation on a company's board must be between 40-70%. As a result, our flagship fund, the Wholesale Australian Share Fund, has a skew to companies with diverse boards: 34% of companies in the portfolio have at least 40% female representation, compared to 22% for the fund's broader investment universe.

[1] hhttps://www.wgea.gov.au/newsroom/media-releases/more-women-at-the-top-proves-better-for-business

[2] https://eige.europa.eu/gender-mainstreaming/policy-areas/economic-and-financial-affairs/economic-benefits-gender-equality

We have focused on Sustainable Development Goal (SDG) 5.5, seeking to ensure women's full and effective participation in leadership at all levels of decision making in the companies in which we invest.

Stewart Investors, Sustainable Funds Group

One of the key tenets of our investment philosophy has long been a focus on the cultures and the people behind the businesses we invest in.

Considering diversity within organisations is a key part of understanding those cultures better. The willingness of founders and managers to foster an inclusive environment and seek a diverse range of viewpoints is suggestive of an open and growth-oriented culture.

Diversity of thought comes in many different forms, and is reflected in leadership teams with a range of different industry backgrounds, countries of residence and genders.

Why and how are we engaging on gender diversity?

We believe we invest in some of the highest quality companies across our Asia Pacific, emerging markets, and worldwide investment universes. However, gender diversity remains a work in progress, especially on senior management teams and the Board. This is a topic that is relevant to companies across our investment universe, and in our minds, it is a step towards thinking about diversity of thought more broadly.

We are by no means experts on this topic. We commissioned the University of Technology, Sydney, to research and identify policies and tools that have successfully improved the recruitment and retention of women through their careers. We shared this research with some of the companies we invest in, on behalf of clients, and continue to engage with them. From the responses, a few interesting examples of what these companies have been able to achieve include:

- An IT services provider opened an all-women Business Processing Services centre in Riyadh, employing over 1,000 women, of whom 85% are Saudi nationals. With multiple other examples of initiatives taken to retain women within the broader organisation, they have been able to keep the attrition rate for women within the company at the same level as the overall attrition rate – unique within the IT services industry.
- A company in the automotive and farming sector ensures that a minimum of 30% of new hires in 'core' roles of engineering, research and development (R&D), sales, and manufacturing are women. This was achieved by changing the incentive structure for recruitment consultants they work with, providing higher consultancy fees and referral bonuses for every female candidate shortlisted.

We continue to engage with and learn from the successes of companies we invest in, such as Halma, which effectively improved gender diversity across the organisation in a fairly short period of time.

Operating with a decentralised model with 44 subsidiaries across 20 countries, diversity is a key competitive advantage for the group. Yet just six years ago, Halma had 18% women on the Board and the executive team didn't have any women. With strong leadership from CEO Andrew Williams, and buy-in from the organisation as a whole, Halma today has 40% women on its Board, 58% on the Executive Board, and 50% among its divisional CEOs.

Alongside commitment from senior managers, this has been achieved through active management of recruiters, focusing on IQ and learning agility rather than just the relevant job experience (particularly on the Board), and implementing practical, behaviour based learnings. As a decentralised organisation, Halma is very careful to manage the relationship it maintains with operating subsidiaries. The first global policy they implemented across the organisation was a parental leave policy for both parents, highlighting the importance of inclusion in the culture of the organisation.

You can watch our interview with Jennifer Ward, Halma's Group Talent and Communications Director here: https://sfg.stewartinvestors.com/diversity-and-inclusion

Source: All company information has come from the Company Report unless otherwise stated

Reporting on progress

Our diversity scorecard shows some movement of our numbers in both directions. At the end of December 2020, women represented 25% of our investment management roles. This was a 3% increase from the previous year. The female compositions of both our Executive Leadership Team and senior professionals have each increased over the last 12 months by 2%.

	% Male	% Female	
Total Firm	57%	43%	↓1%
ELT	71%	29%	↑2%
Senior Professionals	64%	36%	↑2%
Investment Management Professionals	76%	24%	↑2%
Client Facing Professionals	59%	41%	↑2%
Subsidiary board members	69%	31%	↑2%
New starters to the firm in the last 12 months	52%	48%	↓1%
New starters to investment teams in the last 12 months	61%	39%	↑2%

As part of our ongoing focus to improve diversity and inclusion within our organisation, during 2020 we:

- Improved our ability to capture and report on different diversity and inclusion metrics through the implementation of a global HR information system.
- Participated in the CFA Institute Diversity & Inclusion Experiential Partner Program. Over 12 months, we implemented selected ideas from the CFA Institute guide Driving Change: Diversity & Inclusion in Investment Management, with quarterly check ins with the CFA to talk through what worked, and what participating firms can learn from each other.
- Participated in a research initiative in collaboration with the City of London Corporation and Bridge Group, to explore the link between socio-economic background and career progression in Financial Services.
- Had a strong focus on disability and mental health, particularly in the current environment through our communications, an increased focus on flexibility and support tools and the introduction of Wellness Leave.

Pay equity differential is now 1% with the fixed remuneration compa-ratio of males being 1.03 compared to the comparable roles in the market, with our women at 1.02.

Source: All company information has come from the Company Report unless otherwise stated

25%

women in investment management roles at the end of 2020.

WOMEN IN INVESTMENT MANAGEMENT ROLES

21%	2015
21%	2016
23%	2017
22%	2018
22%	2019
25%	2020

Feature

First Sentier Investors' 'Pathways': a program to foster diversity and inclusion

We believe a diverse workforce and inclusive workplace leads to better outcomes for our staff, clients and the wider community.

Our Pathways program seeks to foster diversity and inclusion through a number of initiatives across each region. We also actively monitor and disclose our gender equality metrics.

Underlying this commitment is a recruitment and retention framework that includes:

- Recruitment protocols that safeguard against bias and ensure a diverse range of candidates are considered for roles.
- Interview protocols that ensure female interviewers are part of each recruitment panel.
- Programs for parents supported by a global parental leave policy.

Challenges

The current approach to improving gender equality is not working fast enough. Research shows that with current growth patterns, we cannot expect to see equal representation of women and men at CEO level until 2100, and similar projections apply for executive leadership.[1]

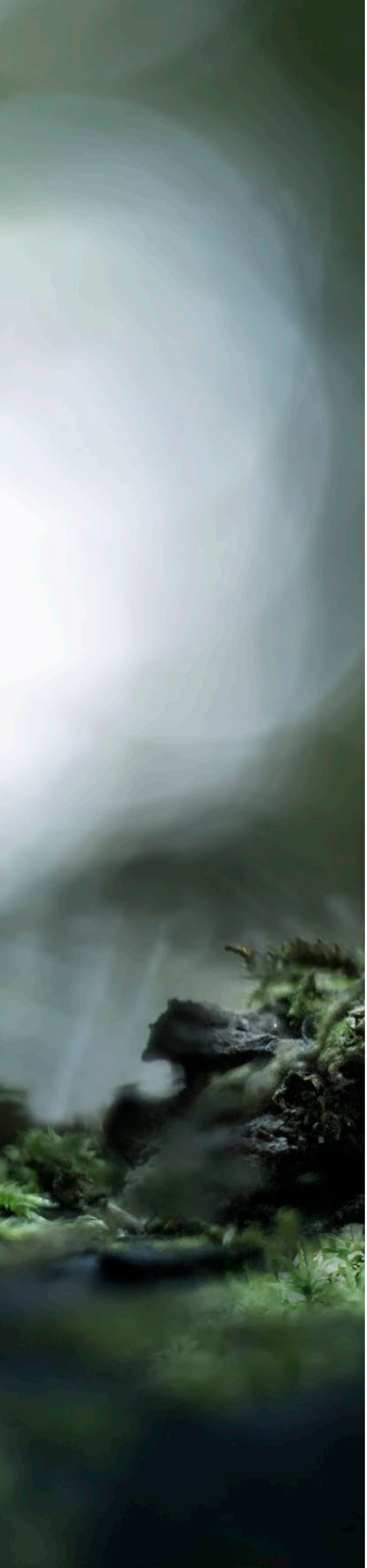
It's clear that, despite the progress that has been made, there is still a large opportunity for investors to help drive change on this issue. Collaboration, innovation and cultural change from the top are all needed to make a significant difference.

Moreover, if this is the case for gender diversity, then the challenges for other types of diversity are even greater. While there is reasonably good information available on gender diversity, companies are reluctant to release information on representation around race, religion, sexuality or disability (noting that there are privacy rights involved). We need to see more data and better transparency in future, to understand the scale of the challenge.

[1] https://bcec.edu.au/publications/gender-equity-insights-2019-breaking-through-the-glass-ceiling/

Future plans

Despite slow progress we are committed to continuing our focus on gender diversity and are confident we are making progress and moving in the right direction. This year we are also working towards building our own set of more universal diversity measures, engaging with the companies we invest in and measuring and acting on these issues. As investors, we have an important role to play in driving better disclosure on material issues like this and on signalling their importance.



Biodiversity

Why is it 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 both understand and mitigate those risks.

What is First Sentier Investors 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 feature on the following page).[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] Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy WEF January 2020

[2] https://www.nature.com/articles/s41598-019-43023-x

[3] https://www.nature.com/articles/s41598-019-43023-x

Feature

Marine microplastic pollution – engaging with the laundry industry

"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 Program, 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 with more than 60% of the clothes we buy today containing them. 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.

In collaboration with the UK's Marine Conservation Society, we are leading a program to engage with the manufacturers of domestic and commercial washing machines to fit filtration technology to their products, as a standard feature, that prevent plastic microfibres entering the world's marine ecosystems. This technology is available today, but is not widely used by the industry.

Globally more than 840 million domestic washing machines are in use, with one kilogram of washing able to release up to 1.5 million fibres[1]. Across the UK, for example, 9.4 trillion 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, and we have identified a need to apply group pressure to manufacturers with the objective of encouraging commitments to fit filter technology as a standard feature.

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

[2] https://www.thewi.org.uk/__data/assets/pdf_file/0007/327418/WI_EndPlasticSoup_Report_Stakeholders.pdf

Feature

FSSA Investment Managers knows better ESG outcomes start with a conversation

In 2016, shortly after China's National Health Conference, China announced the Healthy China 2030 Planning Outline. The proposal aims to promote healthy lifestyles and physical fitness to prevent a future health crisis with such a large aging population.

Feeding China is a remarkable challenge. The country can provide for 22% of the world population with just 7% of the world's arable land.[1] But a consequence of this consumption and resource imbalance is that the country has had to carefully manage its water consumption, fertiliser use and biodiversity. These challenges will no doubt be exacerbated in the future by the ongoing climate crisis.

When investing in China, alignment with the state is also a prudent consideration. We engage with our companies to ensure they are adapting to both social and political trends. Both these health and resource scarcity government initiatives affect Yum China, the master franchisee of KFC and Pizza Hut in China.

We have debated Yum China at length and regularly over recent years. It is a high conviction position for a number of our funds, but for some of our portfolio managers, the sustainability hurdle has been too high. There are a number of environmental and social concerns we have had, including the environmental impact of their supply chain, the quality of their sourcing standards and the obvious issues of selling and marketing fried food.

Following an analysis of their sustainability reporting, we engaged with the company to follow up on our concerns. We were pleased to hear about a number of initiatives to improve their sustainability measures. In particular, we were impressed by their speed in adapting to consumer preferences and their awareness of the environmental impact. Proactively addressing both will prove critical in China, where we are seeing a rapid change in attitudes towards public health and climate risk.

The company has been purchasing Roundtable on Sustainable Palm Oil (RSPO) certified palm oil for some time; and they are continually implementing new initiatives, such as a company-wide sustainable packaging sourcing policy and environmental risk management databases. We outlined our concerns to management and encouraged a more ambitious target. This includes things like 100% sustainably sourced soy for chicken feed and incorporating healthier menu items.

Additionally, we have stressed to management that supply chain management and sourcing standards are crucial in identifying and tackling climate-related risks. To this end, we have suggested that more disclosure and analysis around scope 3 emissions should be a priority. Management admitted that they have struggled with spreading awareness within China (where 98% of their suppliers are based), but that they are working closely with their suppliers to ensure alignment. We believe the company's extensive auditing around food safety is an indication of management's proactiveness once they commit to standards.

While the company suffered in the past with quality and food safety issues, their quality audits and training now cover 100% of their restaurants and logistics centres, and the Food Safety Committee features three of the company's directors and reports directly into the board. Hence, we are optimistic that the business will extend this critical lens to their more social and climate-related challenges.

Overall, we believe Yum China's alignment and leadership on public health and environmental initiatives demonstrate a willingness to be proactive around future regulatory risks and we have increased our conviction in the company.

China feeds

22%

of the world population but makes up only

7%

of the world's arable land

[1] H. Zhong et al. – Modern China

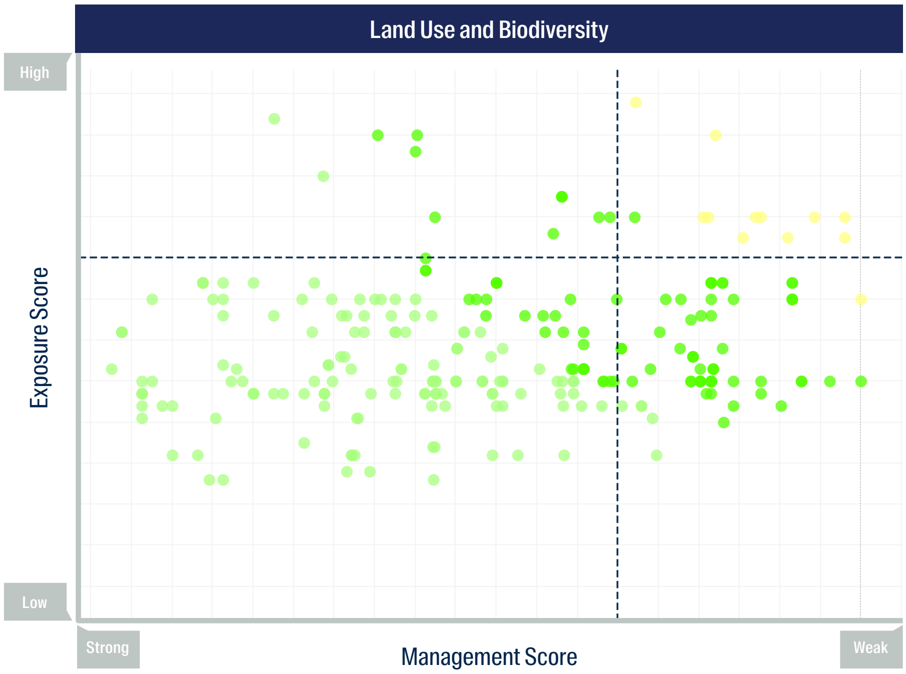
Reporting on progress

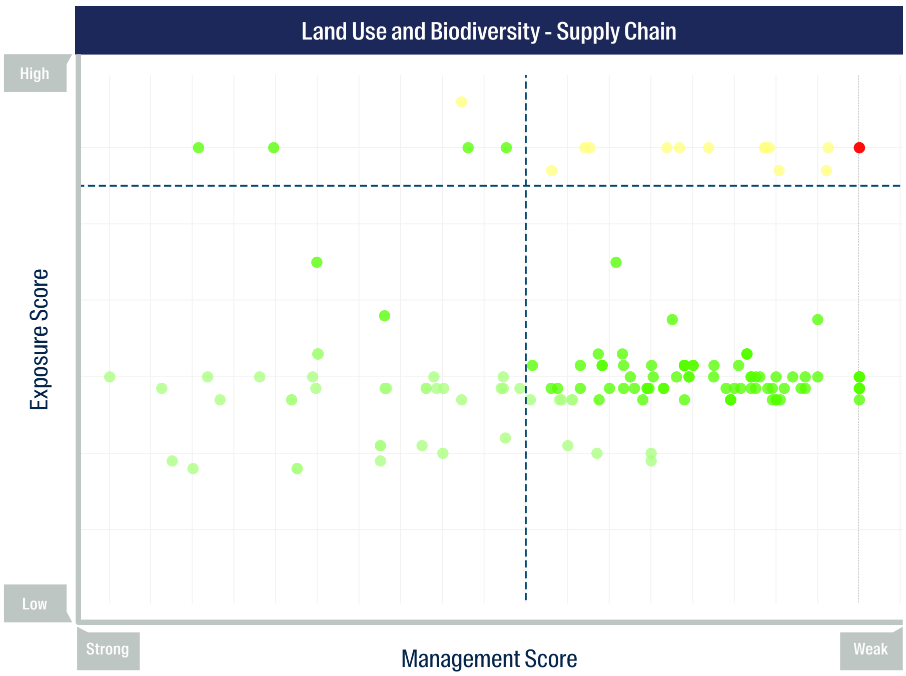
As we try to take a more holistic approach to biodiversity risks across our portfolios, we have prioritised companies with a high nature dependency (both direct and within the supply chain) according to the WEF New Nature Economy report[1]. These include companies involved in the forestry, agriculture, fishery and aquaculture and utilities industries.

We have mapped this to sectors that Sustainalytics identifies as having Land Use and Biodiversity as a Material ESG Issue in their operations or supply chain. The charts on this page show Sustainalytics' assessment of how exposed our portfolio companies* are to these risks, and how they are managing this exposure.

While Sustainalytics assesses the overall exposure (measured in terms of the potential impact on the economic value of the company) of these companies as low compared to other issues, for the reasons outlined in this report, we feel that it is an issue which will become more material over time. Accordingly we need to remain vigilant in our understanding of the issues, particularly as management of the issue is assessed as weak for a large number of companies.

Over the course of 2021, we will be working to understand these risks better, and ways in which to manage them.





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

* Companies in the Paper & Forestry, Food Products and Utilities Peer Groups as classified by Sustainalytics have been represented on this chart.

Graph source: First Sentier Investors, Powered by Sustainalytics. For illustrative purpose only.

Challenges

While biodiversity is only recently emerging as an ESG issue on investors' radars, COVID-19 has heightened its urgency. Investors must better understand the connection between people, companies, wildlife and biodiversity, to better assess the impact of biodiversity loss on the companies they invest in and their contribution to the problem.

The lack of awareness of the issue and its importance among the investment industry is compounded by a lack of information. First Sentier Investors believes more information is needed on the impact of biodiversity issues on different industries, and investors need the guidance of clear frameworks for identifying and addressing these risks and opportunities.

Future plans

We understand that we need to move from an issue-driven and company-specific approach to a more holistic understanding of the business implications of biodiversity loss. We have started to map these risks (as outlined in the reporting on progress section) but there is much more work to be done to understand the extent of these issues beyond high risk industries.

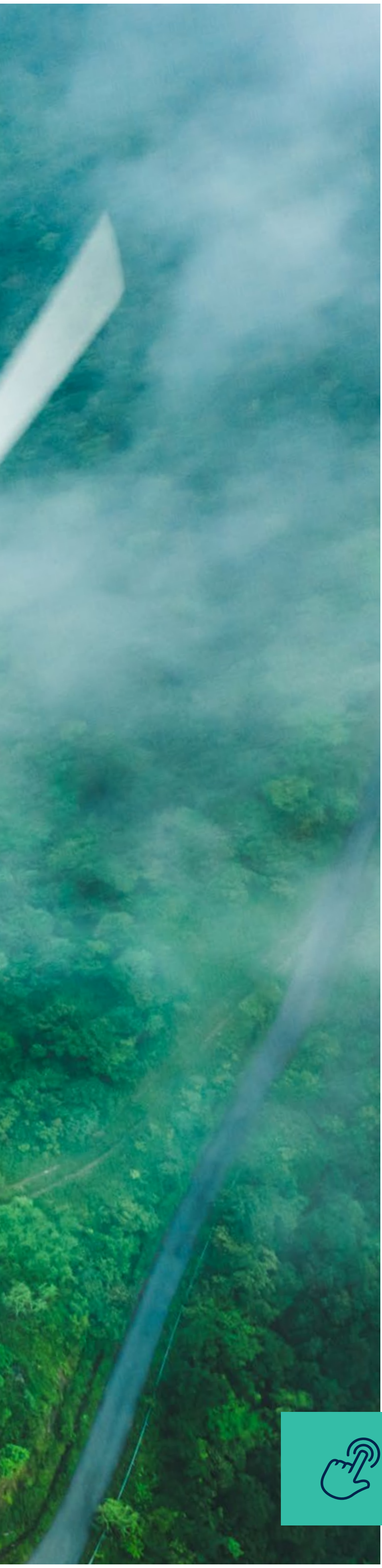
In 2021, we will be setting up a working group to learn from experts and each other, and we will develop a strategy for addressing biodiversity risks in the investment process. We will explore options for collaborating and knowledge sharing with the investment community including by signing the Pledge for Finance and Biodiversity, and we will report on our progress.

We welcome the launch of the Task Force on Nature-related Financial Disclosures and look forward to contributing to this work through relevant forums including the Australian Sustainable Finance Initiative.

We welcome the launch of the Task Force on Nature-related Financial Disclosures

Stewardship

Given the changes to the UK Stewardship Code that came into force in 2020, we made a decision to develop a standalone report focused exclusively on stewardship to complement this report. This was also a driver for us to develop a new Global Responsible Investment and Stewardship Principles and Policy framework, which builds on and improves our previous suite of RI policies and consolidates them into one document.



Throughout 2020, our equities teams voted on 62,143 resolutions.

The framework articulates our approach to and beliefs around RI and what it means to us, and includes a set of guiding principles for investment team members as well as specific requirements in relation to ESG integration, corporate engagement, proxy voting and investment screens.

Voting

Throughout 2020, our equities teams voted on 62,143 resolutions.

Voting is an important investor right and responsibility. The table shows the number of times the teams have voted against management recommendations, against our proxy advisor's recommendation, or against both. For a detailed breakdown on our voting record, please refer to the Stewardship Report.

Against Proxy Advisor	4,639	7%
Against Management	7,678	12%
Against both	3,450	6%

Source: Proxy voting information for 12 months to 31 December 2020. Source: CGI Glass Lewis/ First Sentier Investors.

For further information, please refer to our Stewardship Report due for release on our website in April 2021.

Policy and wider industry engagement

In our 2019 report, we flagged the unprecedented growth in regulation of the RI-related activities of the investment industry. We have actively participated 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 have participated in during the past year.

EU Sustainable Finance Disclosure Regulation

What is it?

The EU's regulation on sustainability-related disclosures in the financial services sector (SFDR) sets out a series of organisational and product level disclosures which must be made by asset managers 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 are we doing?

We support efforts to empower end-investors to make informed decisions on where to allocate their saving, 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, First Sentier Investors created a formal SFDR project steering group which comprises 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 ensure we are fully compliant with the relevant requirements by the implementation date.

In June 2020, First Sentier Investors created a formal SFDR project steering group which comprises senior representatives from our RI, legal, compliance, product, marketing, sales and distribution teams.

Australian Sustainable Finance Initiative

What is it?

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 are we doing?

First Sentier Investors was 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.

Monetary Authority of Singapore Guidelines on Environmental Risk Management

What is it?

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 are we 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 in due course.

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

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 initiatives

PRI

- Signatory.

Cambridge University 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 Coordinating Working Group.
- Member of 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 & Trafficking APAC

- Chair.

EMEA

UK Sustainable Investment Forum

- Board Member.

EUROSIF

- President.

Institute of Chartered Accounts in England and Wales (ICAEW)

- Member of the Corporate Governance Committee.
- Member of Sustainability Committee.

Prince's Accounting for Sustainability (A4S)

- Expert panel member.

UK Investment Association

- Member of Sustainability & Responsible Investment Committee.
- Chair of Standards & Definitions Working Group.

London Stock Exchange Group

- Member of Sustainable Investment Committee.
- Member ESG Advisory Committee.

First Sentier
Investors