



# Ethical Investment and Stewardship Policy

27 April 2021

# Contents

<b>1. Ethical investment criteria</b>	<b>3</b>
Ethical approach	3
Ethical criteria overview	4
ESG analysis explained	6
ESG controversies analysis	6
Investing for positive outcomes	7
Ethical Analysis	7
<b>2. Stewardship</b>	<b>8</b>
Approach to stewardship	8
Engagement steps	9
Investment principles	10
Tracking and Monitoring	11
How we do it	11
Industry collaborations	12
Advocacy	12

# 1. Ethical investment criteria

## Ethical approach

U Ethical pursues a values-based, risk-adjusted, United Nations Sustainable Development Goal (UN SDG) tilted approach to investing. Our investment process seeks to ensure that our holdings are aligned with our clients' financial and ethical expectations, while helping to enable a sustainable future.

We incorporate a top-down approach which defines our investable universe by excluding ethically misaligned industries, undesirable business activities, practices and human rights breaches.

U Ethical targets companies with a minimum Environmental Social Governance (ESG) rating of "BB", while excluding companies with very severe controversies as well as ESG laggards (CCC and B ESG-rated companies). Please refer to Table 1 below.

**Table 1**



[MSCI ESG Research].

U Ethical's investment process integrates a detailed list of environmental, social and governance (ESG) considerations with the aim of both minimising investment risk exposure, while identifying investment opportunities. We consciously seek out companies that promote: **human welfare, dignity, environmental stewardship and a low carbon economy**, both through climate risk management and disclosure, and investments in clean energy and technology. Through fundamental analysis, the investment team looks for companies which are either exercising best practice when compared to global industry peers, or are on a positive trend either through changes to business models, procurement practice or stakeholder engagement initiatives.

U Ethical also relies on these considerations to inform and prioritise its stewardship activities and contribute to the collaborative investor initiatives in which it participates.

We monitor companies on an ongoing basis, through ESG alerts, broker research and media outlets, with a full annual review, as well as quarterly and interim reviews where necessary, for example in the event of a significant controversy case, misconduct event or egregious behaviour.

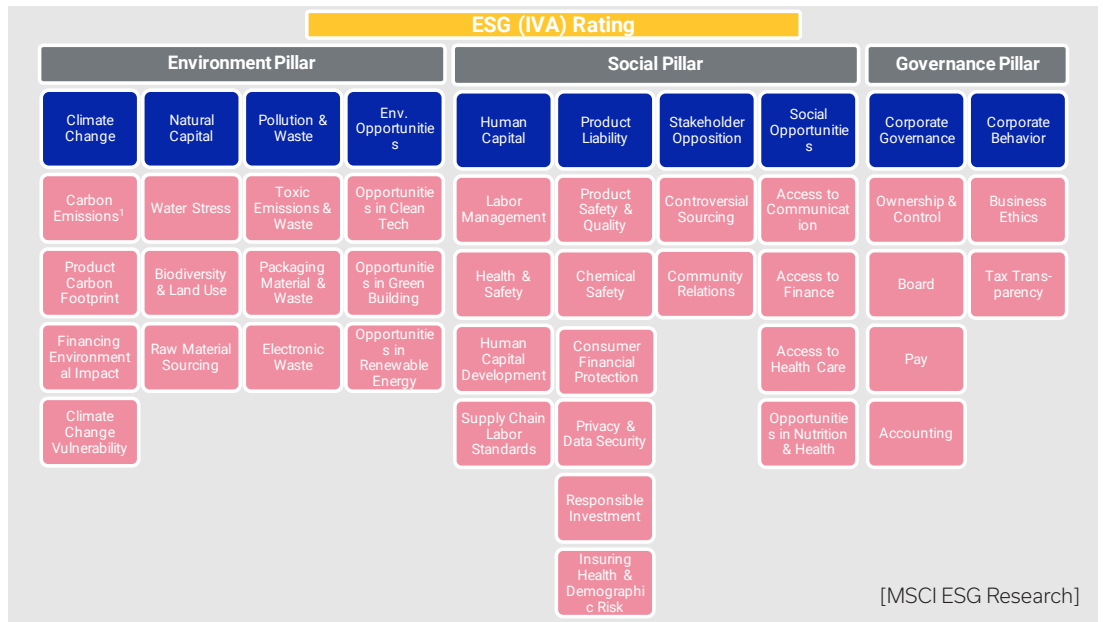
## Ethical criteria overview

U Ethical uses MSCI ESG Research data, Institutional Shareholder Services governance data, broker research and other market intelligence and analytics to assist with both negative and positive screening. For business involvement screening, U Ethical applies a materiality threshold of 5% and 0% of direct revenue. Business involvement screening goes beyond an industry group classification and accounts for factors of 'ownership of' and 'ownership by', whereby:

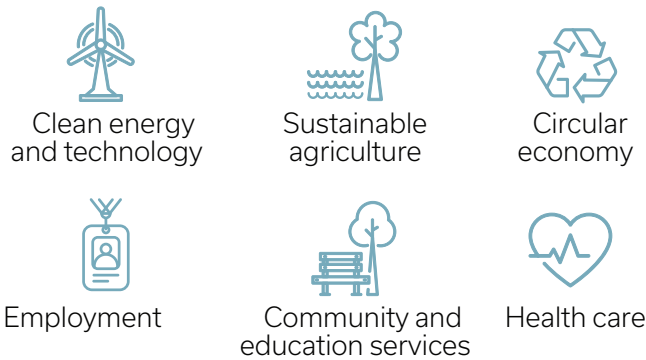
- "Ownership Of" involvement – this factor captures companies that own from 20% to 49.99% of a company with involvement in the business activity listed in U Ethical's negative screening list, and
- "Ownership By" involvement – this factor captures companies that are 50% or more owned by a company with involvement.

<p><b>Ethical (negative) screening</b></p>	<p>Restricts investment in securities with a material (&gt;5% revenue) exposure to the following activities:</p> <div style="display: flex; flex-wrap: wrap; justify-content: space-around; text-align: center;"> <div style="width: 20%;"> Defence and weapons (civilian and conventional weapons)</div> <div style="width: 20%;"> Gambling</div> <div style="width: 20%;"> Alcohol production</div> <div style="width: 20%;"> Adult entertainment</div> <div style="width: 20%;"> Animal cruelty and exploitation</div> <div style="width: 20%;"> Genetic engineering</div> <div style="width: 20%;"> Fossil fuels</div> </div>
<p><b>Our 'zero tolerance' negative screening –</b></p>	<p>Restricts investment in securities with any exposure to the following activities:</p> <p>Controversial weapons covered:</p> <ul style="list-style-type: none"> <li>• Biological-chemical weapons</li> <li>• Depleted uranium</li> <li>• Non-detectable fragments.</li> <li>• Blinding lasers weapons</li> <li>• Incendiary weapons</li> <li>• Nuclear weapons</li> <li>• Cluster munitions</li> <li>• Landmine</li> <li>• Nuclear power<sup>2</sup></li> </ul>
<p><b>Controversy screening</b></p>	<p>Screens out companies with <i>very severe controversy flags</i> (i.e. red flags). Please refer to Table 1 on page 9.</p> <p>Screens out companies that fail to meet international global norms and conventions such as, among others, the United Nations Global Compact, the International Labour Organisations (ILO) Conventions, the Universal Declaration of Human Rights, the Equator Principles, etc.</p>
<p><b>Governance factors</b></p>	<p>Within the governance (G) pillar, we prioritise board structure and composition (e.g. skills, gender diversity), pay and remuneration, ownership and shareholder rights, accounting practice and tax transparency.</p> <p>We cover further analysis of:</p> <ul style="list-style-type: none"> <li>• Corporate behaviour</li> <li>• Tax transparency</li> <li>• Whistle-blower protection</li> <li>• Business ethics</li> <li>• Corruption and instability</li> </ul>

## ESG Integration



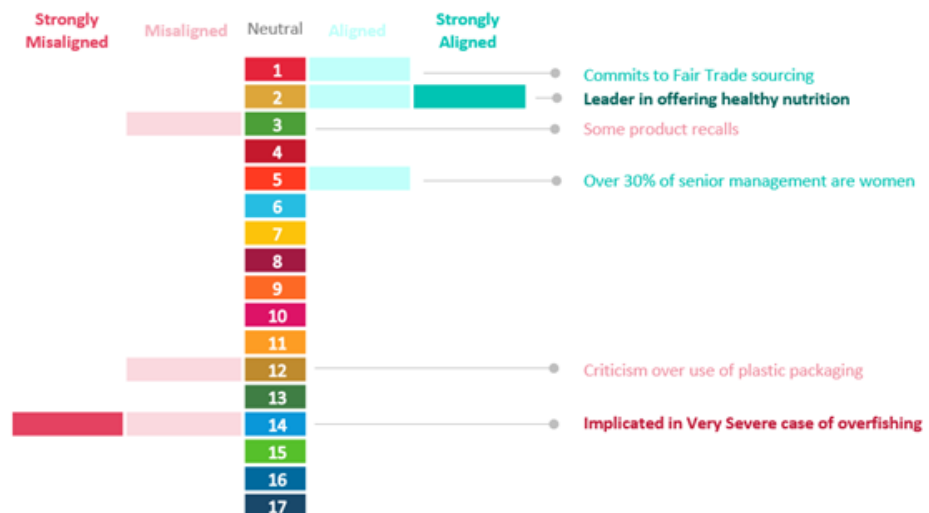
## Positive screening



## Target UN-SDG alignment (revenue based)

Factors considered:

- Net SDG-alignment
- Environmental impact solutions
- Social impact solutions



[MSCI ESG Research's SDG Alignment Methodology]

## ESG analysis explained

In 2015, 193 countries decided on the 17 Un Sustainable Development Goals (SDGs) with a target delivery date of 2030. The SDGs aim to foster collaboration within and between international private and public stakeholders to address critical global challenges such as poverty, inequality, climate change, environmental degradation, peace and justice.<sup>1</sup>

To ensure compliance with our ethical, social and environmental values, qualitative and quantitative ESG analysis is conducted across all new holdings prior to investment. The relevant ESG factors will vary according to industry and company. We rely on MSCI ESG Research's industry risk intensity data to assess the most financially material risks for listed securities in line with the Global Classification Industry System (GICS) sub-industry level risks. This includes analysis of their specific business segments, geographic risk exposure and related management practice.

Both qualitative and quantitative ESG assessments help us to:

- ascertain whether companies breach any of our exclusion criteria or ethical values,
- identify risk-adjusted performance drivers, and
- contribute to the UN-SDG and/or
- are better positioned to a low carbon and sustainable world.

## ESG controversies analysis

U Ethical monitors ethical and ESG controversies to ensure that portfolio companies comply with the Ethical Investment Policy. The team uses a range of sources to monitor controversies including MSCI ESG Research alerts, ISS governance research, broker reports, news publications, Factset, industry bodies (The Responsible Association of Australasia (RIAA), Principles for Responsible Investment (PRI), Chartered Financial Analyst Institute (CFA) and relationships with non-for-profit organisations such as the UCA's Justice for International Mission Unit, Australasian Centre for Corporate Responsibility (ACCR) and ShareAction. Controversy cases are assessed by MSCI's analysts in terms of **severity**, **type** and **status**.

The type of controversy case helps to determine whether a controversy is the result of underlying problems or structural failings at the company:

- **Structural:** There is evidence of an underlying problem at the company – poor culture, or lack of adequate governance and oversight that is responsible for or contributed to the occurrence of the controversy. The incident would likely have been avoided if the company had good culture, governance, and oversight procedures in place. Indications of a structural problem might include high level executive involvement in misconduct, a history of ignoring warnings, or a pattern of incidents across locations or business units.
- **Non-Structural:** The controversy appears to have come about because of misfortune or rogue employees rather than poor culture or governance failures. Better culture or governance and oversight could not reasonably have been expected to prevent it.

---

<sup>1</sup> Source: "About the Sustainable Development Goals" – United Nations; <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

Controversy cases' status regards whether a case is concluded, on-going or a historical concern.

For companies which have been involved in very severe controversies - refer to Table 1 on page 9.

- Within the last 12 months > **excluded**
- More than 12 months since controversy uncovered > **qualitative analysis undertaken to assess the companies' response to the controversy, and ensuing efforts to resolve and, where required, remediate it.**

## Investing for positive outcomes

The positive screening process actively seeks out companies which help to **eradicate poverty, protect the planet and build a peaceful and prosperous world.**

We actively seek out companies which are aligned with the United Nations Sustainable Development Goals. We use MSCI's Sustainable Impact Metrics (SIM) tool, which identifies companies that derive revenue from products or services with positive impact on the society and the environment.

The tool estimates the relevant percentage of revenue for companies' most recently completed fiscal year. The U Ethical investment team then verify this alignment with our own qualitative research which utilises a range of sources – product analysis, company disclosures, United Nations Sustainable Development knowledge platforms, broker research, and more.

## Ethical Analysis

All ethical analyses are integrated in the investment analysts' research notes for all new stocks. The ethical analysis section aims to capture in detail how new companies under review do not breach U Ethical's ethical framework while meeting or exceeding greater operational or product level best practice and considering future prospects. The section covers:

- **Ethical Framework Analysis** – Summary across compliance, risk management and forward outlooks
- **ESG Strengths** – best ESG aspects with an indication of positive screening and material contributions to social or environmental impact and/or low carbon/climate risk management
- **ESG Weaknesses** any business involvement or ESG practice which **could or may** contravene any of the U Ethical framework's exclusionary criteria
- **ESG Controversies** – an overview of most recent controversies watch list.

---

## 2. Stewardship

### Approach to stewardship

We believe that engagement should be constructive and aim to foster positive change. Before voting against a resolution at a company's annual general meeting, we strive to talk or meet with the company's management to raise our concerns. When investee companies are involved in controversy cases of a certain severity, we also seek to first hold a conversation with the company's management and follow that up with a formal correspondence and future meetings.

#### U Ethical's areas of stewardship focus:

- Corporate governance and corporate behaviour,
- Human rights and global norms, incl. labour rights, modern slavery, aboriginal rights, and social justice,
- Environmental stewardship, incl. circular economy, sustainable sourcing, toxic emissions and waste, biodiversity and animal rights,
- Social responsibility, incl. responsible lending, gambling and ethical sourcing,
- Climate change risk, incl. Paris-aligned commitments.

---

#### Proxy Voting and active engagement

Companies with  $\geq 30\%$  female representation at board level

Encourage companies to disclose on and enhance gender diversity at senior or executive level

Encourage companies to disclose on and carry out climate risk assessment and Task Force on Climate-related Financial Disclosures (TCFD-aligned climate risk reporting

Shareholder resolutions – additional review of and voting on Environmental and Social proposals

Co-filing of shareholder resolutions with leading industry peers on *ad hoc* basis

U Ethical will engage in the first instance and if an unsatisfactory response is received on a diversity of Ethical and ESG considerations, we will vote against at least one of the following (in descending order):

1. the Chair of the board
2. the Chair of the Nominations Committee
3. a member of the Nominations Committee, or
4. the longest-serving director seeking re-election.



## Engagement steps





Within our ESG thematic areas, the investment decision-making process enables us to prioritise sub-factors or indicators where there is either a concern and/or an expectation on the company to remediate malpractice or improve general ESG performance.

Firstly, we consider involvements into business activities that might be in breach of our ethical framework<sup>3</sup>. Secondly, we analyse financially-material ESG issues as prioritised by MSCI ESG Research's ESG Rating model.

Engagement goes beyond **governance (G)** and particularly focuses on **environmental (E)** and **social (S)** factors, ethical controversies as well as **United Nations' Sustainable Development Goals (UN-SDG) alignment**.

In order to prioritise the individual factors, the investment team leverages proxy voting benchmark data from ISS Socially Responsible Investment (SRI) policy. Within environment (E) and social (S) pillars, we prioritise issues material to the specific industry of an investee company. For engagement purposes, we prioritise companies with poor ESG profiles and performance and/or ESG-related controversies of a severe (orange flag) and very severe nature (red flag) - Please refer to Table 2 below.

**Table 2**

Flag	Flag Description
 <b>RED:</b>	Indicates that a company has been involved in one or more recent very severe controversies
 <b>ORANGE:</b>	Indicates that a company has been involved in one or more serious recent controversies that are just shy of the criteria for a red flag.
 <b>YELLOW:</b>	Indicates that the company has been involved in significant recent controversies.
 <b>GREEN:</b>	Indicates that the company is not involved in major recent controversies. It may have involvement in one or more less significant controversies.

**Table 3**

	Very Serious	Serious	Medium	Minimal
Extremely widespread	Very Severe	Very Severe	Severe	Moderate
Extensive	Very Severe	Severe	Moderate	Moderate
Limited	Severe	Moderate	Minor	Minor
Low	Moderate	Moderate	Minor	Minor

<sup>3</sup> These involvements go beyond Global Industry Classification System (GICS) and look at issuers' corporate structures and equity involvements

Source: MSCI ESG Controversies and Global Norms Methodology

For Australian and International investments, the investment team would typically engage the management of portfolio companies after their interim and full year results.

Ethical and ESG considerations relating to stewardship are discussed daily or on an *ad hoc* basis within the investment team. ESG analyses and voting records are shared quarterly with the Investment Committee (IC) and main ethical, ESG or proxy voting concerns are discussed with U Ethical's independent Ethical Advisory Panel (EAP) on a quarterly basis.

## Investment principles<sup>4</sup>

U Ethical carries out its stewardship responsibilities in a two-fold manner: via **proxy voting** and **active engagement** with companies in which U Ethical holds shares.

We acknowledge that ethical decisions are often complex and require careful consideration of both positive and negative factors. The nature of corporate impacts and dependencies on both society and the environment require detailed analysis, evaluation and monitoring.

When our research uncovers companies held in our portfolios that have become involved in unacceptable activities or practices, our preference is to firstly initiate a process of direct engagement as a means of encouraging remediation and/or change consistent with community expectations, the expectations of a broader set of stakeholders and our values.

When engagement doesn't deliver a satisfactory demonstration of outcomes over a minimum of one year time, we will consider co-filing a resolution with peer investors or industry partners and ultimately consider the exclusion of the company from our investable universe.

**Proxy voting** – We will strive to write to domestic and international companies soon after investing to inform them of our values, ethical investment policy, and voting policy and guidelines. Actively casting proxy votes is an integral part of U Ethical's stewardship aimed at signalling the intent of responsible investing. During voting season, prior to a company's annual general meeting (AGM), U Ethical will review and then vote on the structure and diversity of a company's board of directors.

**Board diversity** – Diversity is a material factor to U Ethical, which we champion in our advocacy efforts. We will use our rights as shareholders to vote and engage with companies who do not meet the 30% female Board-diversity threshold in line with the Australian Council of Superannuation Investors (ACSI)'s recommendations<sup>5</sup>. We will also seek information on current gender diversity in the executive team, and senior management level to ensure greater diversity and inclusion is carried out through the organisation as a whole.

---

<sup>4</sup> These Principles consider when/ how we apply stewardship and communicate with company management, whether a current or prospective holding, on issues related to our ethical investment policy.

<sup>5</sup> <https://acsi.org.au/our-issues/gender-diversity>

Where this threshold isn't achieved, U Ethical will engage in the first instance and if an unsatisfactory response is received, we will vote against at least one of the following (in descending order):

1. the Chair of the board
2. the Chair of the Nominations Committee
3. a member of the Nominations Committee, or
4. the longest-serving director seeking re-election.

**Shareholder resolutions** – Following review of each shareholder proposal, and in line with U Ethical's ethical investment policy, U Ethical will support shareholder proposals of an environmental and social nature. U Ethical votes all shareholder resolutions, considering each on a case-by-case basis in relation to U Ethical values and ensuring they are in the best interests of our clients. Where votes are cast against management, U Ethical will aim to write to the company to outline our votes cast, and why.

**Public disclosure** – Our annual voting records and statistics, including voting rationales, are disclosed on U Ethical's website.

## Tracking and Monitoring

All communication and engagement with companies: letters, company meetings, ethical and ESG-related questions raised on earnings calls or dedicated calls or meetings, are recorded on Proxy Exchange, the on-line platform of our governance service provider, ISS. These activities are reviewed and reported quarterly, semi-annually or annually to monitor and evaluate the outcomes of U Ethical's engagement efforts. Engagement and advocacy statistics and overviews are included in the following materials:

- Investment committee papers and reports (internal)
- Quarterly newsletter to clients (external)
- Annual report (external)
- Client presentations (external)
- U Ethical's website (external)

## How we do it

Whilst letters are a good initiation to engagement, calls or in-person meetings are preferable. In cases where the investment team have calls or meetings with company management, the company's ESG profile will be assessed and any material concerns will be raised in the meeting, either by the Ethics and Impact Manager, or another member of the investment team. We have developed an **engagement checklist** of key ethical considerations, relevant to the industries in which we invest, which the investment team can reference prior and/or during engagement activities. This checklist provides a guidance for critical questions that the team needs to address to maintain compliance with our ethical investment policy criteria.

All letters relating to corporate governance are addressed to either the Company Secretary, Head of Investor Relations (IR) or General Counsel and followed by regular or on-going communication with IR and Senior Executives at the company. This active engagement could also take place through a diverse range of collaborative industry initiatives. Direct meetings and collaborative initiatives provide a forum to discuss the ESG performance of a company, encouraging further improvement in this performance and disclosures at the highest level.

## Industry collaborations

It is through corporate engagement that U Ethical seeks appropriate and continuous disclosures on ESG matters. This enables us to address key controversy cases that may have occurred to ensure management is aware and can lead the case(s) closure or remediation. The core aim is to encourage companies to not only improve their general governance best practice and operational profile but also to seek a greater ambition to deliver social and environmental outcomes, drive innovation and become, or continue to be, an industry leader.

Direct engagement is also carried out through collaborations with both internal stakeholders, such as social justice experts from the Uniting Church of Australia (UCA)'s Justice and International Mission (JIM) team, who hold significant advocacy experience, and external peers across non-governmental organisations and industry associations. Existing collaborations include the following organisations and respective campaign and/or working groups:

- Consumer group CHOICE,
- The Australian Gambling Reform Alliance,
- Responsible Sourcing Network (RSN),
- The Investor Group of Climate Change (IGCC)'s Climate Action 100+ and Climate League 2030,
- RIAA's Human Rights Working Group and Impact Management and Measurement Working Group,
- The Investors Against Slavery and Trafficking (IAST),
- The Australian Centre for Corporate Responsibility (ACCR), and
- Quit Nukes.

## Advocacy

U Ethical has a history of advocacy to drive regulatory changes.

In cases where we realise we could not affect change as an individual investor, we would encourage or join collaborative endeavours. In some instances when third parties aligned with our values and ethical position approach us for support, we would then engage collaboratively on an *ad hoc* basis.

U Ethical does not formally participate in collaborative initiatives to engage public policy makers, however, we have historically played a strong advocacy role in influencing policy-makers and political representatives within the

Commonwealth Government through the Uniting Church of Australia (UCA)'s Justice and International Mission (JIM) team. Our social justice counterparts regularly meet with policy makers and act as expert witnesses in Parliamentary Inquiries. Key thematic areas for JIM's advocacy in 2021, to which U Ethical provides an extent of internal and external support, are:

- Protecting People on Temporary Visas from Family Violence,
- Climate Justice Action,
- Online safety and curbing online child sexual exploitation, and
- Online Gambling Advertising Reform.

LINK: <https://victas.uca.org.au/>

U Ethical will vigorously pursue its ethical values and objectives subject to the resources and size of its operations. While naturally concerned about a number of ethical considerations that are often in circulation at any point in time, we shall elect to focus on specific issues to allow suitable effort be applied to the effort in achieving the desired outcome.

\*This document cannot be duplicated or reproduced in its entirety or partially.

## U Ethical

Level 6, 130 Lonsdale Street,  
Melbourne VIC 3000

**Website** [www.uethical.com](http://www.uethical.com)

**Email** [info@uethical.com](mailto:info@uethical.com)

**Telephone** 1800 996 888

Please remember past performance is not a reliable indicator of future performance. Investments are subject to risk and may result in the loss of capital.

This document is issued by Uniting Ethical Investors Limited (ABN 46 102 469 821 AFSL 294147) ("U Ethical"). U Ethical is the Responsible Entity, Trustee and issuer of managed investment schemes.

This document is intended for the use by wholesale investors only. Retail investors should not rely on any information in this document without first seeking independent advice from their financial adviser. This material provides general information only and does not take into account your individual objectives, financial situation, needs or circumstances. Before making any investment decision, you should therefore assess whether the material is appropriate for you and obtain financial advice tailored to you having regard to your individual objectives, financial situation, needs and circumstances. This document may include general commentary on investment methods, market activity, sector trends or other broad-based economic or political conditions that should not be taken as investment advice. While the information contained in this document has been prepared with reasonable care, no responsibility or liability is accepted for any errors or omissions or misstatements however caused.

This document may not be reproduced or transmitted without the prior written permission of U Ethical.

