



# Ethical Charter and Stewardship Policy

*Ethical Advisers Funds Management Pty Ltd*

*Ethical Advisers Funds Management Pty Ltd (ABN: 66 634 011 724) is a Corporate  
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# Stewardship Policy

Ethical Advisers Funds Management Pty Ltd (EAFM) are passionate about offering ethical investment choices to all investors. We believe that everyone should be able to invest according to their values.

We are also mindful that the financial planning community need affordable and ethical investment product offerings for their clients. Our vision is to help all investors incorporate their values with their investment objectives.

By integrating the social, environmental and financial aspects of an investment, we believe that a more sustainable investment return is possible. For Ethical Advisers Funds Management, it is about 'how' companies are making the money, not just about the amount of money they make.

To increase awareness of ethical investment in Australia we have an active involvement with Responsible Investment Association Australasia (RIAA). We are also founding members of the Ethical Advisers' Co-operative (EAC) and our staff play an active role on the board and in working groups for the EAC. The EAC is member operated and was created to support ethical advisers across Australia and ultimately their clients. One of the goals of the EAC is to increase awareness of ethical investment in Australia.

Our Ethical Charter describes in detail the process through which we select investments that best align with the ethical values of our investors. The key points are summarised below.

## **Ethical Screening**

- We apply a rigorous ethical screen to the investments selected in our portfolios, to avoid investing in companies which are involved in activities that are harmful to the environment or society.

## **Positive Screening**

- We also actively seek out investments which are making a positive impact on the environment or society.

## **Shareholder Resolutions**

- Where possible we vote on shareholder resolutions to help influence outcomes aligned with the long-term interests of our investors.

## **Engagement**

- We encourage companies and other fund managers and stakeholders to consider and improve their environmental and social impact, to help align outcomes with the long-term interests of our investors.

## **Transparency**

- We believe that full transparency is critical, and disclose all shareholdings publicly on our website.

## **Monitoring**

- We actively monitor our investments on an ongoing basis to ensure that the investments continue to align with the long-term interests and expectations of our investors.

## **Recognition**

- The Ethical Investment Mid-Cap Portfolio has been recognised by the Responsible Investment Association Australasia (RIAA) as a Certified Ethical Investment.

# Ethical Charter

Ethical investing is known by many different terms, and there are many different approaches to ethical investing.

From simple ESG integration to Negative and Positive screening, Sustainability and Impact investing, Ethical Advisers Funds Management (EAFM) use a combination of these approaches, which is summarised below:

Where we invest

| TRADITIONAL INVESTMENT  |   | RESPONSIBLE & ETHICAL INVESTMENT   |   |  |  |   | PHILANTHROPY  |  |
|-------------------------|---|--|---|--|--|---|---|--|
|                         |   | ESG INTEGRATION<br>(including shareholder engagement & voting)   | NEGATIVE SCREENING<br>(& norms based)   | POSITIVE OR BEST-IN-CLASS SCREENING<br>(& norms based)                       | THEMATIC/ SUSTAINABILITY THEMED INVESTMENTS  | IMPACT INVESTING  |   |  |
|                         |   |  |   |  |  | MARKET RATE   | CONCESSIONARY RATE  |  |
| <b>FOCUS</b>            | Limited or no regard for environmental, social and governance factors | Consideration & analysis of environmental, social and governance (ESG) factors as part of investment decision making | Industry sectors or companies excluded/ divested from to avoid risk or better align with values | Investments that target companies or industries with better ESG performance  | Investments that specifically target sustainability themes eg clean energy, green property | Investments that target social and environmental impact and deliver market rate financial returns | Investments that target social and environmental impact and deliver below market rate returns | Grants that target positive social and environmental impact with no financial return |
| <b>IMPACT INTENTION</b> | Agnostic  | Avoids harm  |   | Benefits stakeholders  |  |   |   |  |
|                         |   |  |   |  | Contributes to solutions   |   |   |  |
| <b>FEATURES</b>         |   | Delivers competitive financial returns   |   |  |  |   |   |  |
|                         |   | Manages ESG risks  |   |  |  |   |   |  |
|                         |   |  |   | Pursues ESG opportunities  |  |   |   |  |
|                         |   |  |   | Intentionality: delivery of impact is central to underlying asset/investment |  |   |   |  |
|                         |   |  |   | Impact of investment is measured & reported                                  |  |   |   |  |

Source: Responsible Investment Association Australasia [www.responsibleinvestment.org](http://www.responsibleinvestment.org)

## ESG Integration

We consider the Environmental, Social and Governance (ESG) ratings for individual companies, but for EAFM this is just the starting point and is mainly used as a risk management tool rather than for screening out investments. EAFM utilise research from a specialist ESG researcher, CAER, as well as additional ethical research from *Sustainable Platform* and *Ethos*.

ESG ratings are designed to show how well the company manages their Environmental, Social and Governance impact. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

Rather than use ESG scores as a screening tool, EAFM use ESG scores to assess the risks associated with individual companies, as well as for engagement purposes. We encourage companies to consider and improve their environmental and social impact, to help align outcomes with the long-term interests of our investors.

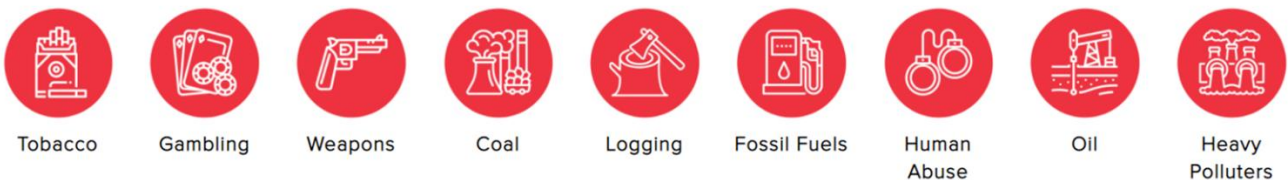
EAFM do not use ESG scores for screening purposes, primarily because we believe that ESG scores can be subjective, can rely on data from the companies themselves which can be misleading (for example, a large coal miner which publishes an extensive sustainability report and subsequently is given a high ESG score), and the ESG scores can vary quite significantly from one research provider to the next.

## **Negative and Positive Screening**

### Targeted Investments – Who We Choose



### Excluded Investments – Who We Avoid



EAFM apply negative screens as well as positive screens, actively targeting investments which have a more positive impact on society or the environment, and impact investments that target sustainability themes.

Firstly, a negative screen is applied to companies, or to funds which invest in companies, which are involved in harmful environmental activities and socially hazardous activities.

Examples of such activities include tobacco and weapons manufacture, gaming, animal cruelty, and uranium and coal mining, as well as direct fossil fuel involvement. The screen is also applied to companies which rank poorly in Environmental, Social and Governance (ESG) performance. All companies which pass the negative screen will be considered for investment; however the manager has a tendency towards selecting positively screened investments.

A positive screen is applied to determine which companies are involved in positive environmental activities or which provide benefits to society. This includes the selection of sustainability themed investments and impact investments.

This may include areas such as healthcare, energy efficiency, recycling, renewable energy, fair trade, community finance and social welfare. Ethical Advisers Funds Management specifically target these companies, or funds which invest in these companies, for inclusion in the Ethical Investment portfolios.

### **Ownership Screening**

Ethical Advisers Funds Management's ethical screening takes into account an issuer's equity investments (e.g., subsidiaries). A parent company and its subsidiaries (greater than 50% ownership) are considered for screening purposes, however a company's minority investments (less than 50% ownership) are not.

### **Negative Screens in Detail**

**Full List of Exclusions** (all have a 0% exposure threshold unless outlined otherwise)

- Animal cruelty (including cosmetic testing on animals, intensive livestock production, live exports) -5% threshold
  - For the Mid-Cap and Large-Cap portfolios there is a 0% threshold for animal cruelty.
- Armaments (including controversial weapons, production, and distribution)
- Cannabis (for recreational purposes) - production and distribution
- Conflict minerals
- Fossil fuels (including exploration for and extraction of reserves, combustion for power generation, and financing) -5% threshold
  - For the Mid-Cap and Large-Cap portfolios there is a 0% threshold for Fossil Fuels.
- Gambling
- Genetic engineering -5% threshold
- Human rights abuses
- Palm Oil -5% threshold
- Logging of old growth forests
- Uranium and coal mining – 5% threshold
  - For the Mid-Cap and Large-Cap portfolios there is a 0% threshold for Uranium and Coal mining.
- Predatory lending
- Pesticides
- Pornography (the production of)
- Securities from issuers on UN sanctions list
- Tobacco (including growing and production)

### Fossil Fuels - detail

The fossil fuel exclusion includes companies with fossil fuel reserves or involved in the production, refinement and transportation of fossil fuels, including coal, petroleum, coal seam gas and natural gas. Not excluded are insurance companies which provide insurance to fossil fuel companies, electrical distribution companies which may distribute some power from fossil fuel sources, services companies which provide certain services to fossil fuel companies (waste removal or telecommunications, for example), or investment companies which may own investments in fossil fuel companies.

It should be noted that EAFM have a 5% threshold for fossil fuel investments. This means that up to 5% of the underlying companies' revenues could be directly related to fossil fuels. EAFM has decided to set this threshold for the Ethical Investment Growth and Fixed Income Portfolios, rather than screen out 100% of fossil fuel exposures. The reason is that many global companies are currently transitioning from old fossil fuel related industries to cleaner, renewable energy industries.

One example of such a company is the renewable energy company, Infigen Energy. Infigen owns 557MW of wind farms in Australia, with a further 300MW of wind energy in development. The company also owns a 109MW peaking natural gas plant which enables Infigen to substantially increase the amount of renewable energy sold.

The fund is overweight in companies which are advanced in their transition from highest carbon intense generation and which have a track record and strategy of growing renewable energy. The fund has a strong focus on such companies which are transitioning to renewable energy. In the above example, Infigen Energy are using the peaking gas plant as a transitional fuel, but their focus remains on increasing the development of renewable energy, and the company has a plan on becoming 100% carbon neutral in the next two years.

Infigen Energy is an excluded investment in both the Mid-Cap and Large-Cap portfolios which have a 0% threshold for fossil fuel involvement. Infigen Energy is currently included in the Growth Portfolio.

**The actual direct exposure to fossil fuels is estimated to be less than 0.5% of the Ethical Investment Growth and Fixed Income's total investments.** Indirect exposure (ie, investments in banks which lend to companies involved in fossil fuels) may be slightly higher and will vary over time depending on the underlying investments selected.

We would never purchase shares in companies with direct fossil fuel exposure, such as Woodside Petroleum, Oil Search, Exxon Mobil, BP or Shell.

### Tobacco - detail

Tobacco manufactures are excluded from the portfolio. Not excluded are transport companies which may transport tobacco products as part of their operations, or companies which make packaging for tobacco products as part of their operations.

We would never purchase shares in tobacco companies such as British American Tobacco, Phillip Morris International or Altria Group.

### Palm Oil - detail

We aim to minimise our exposure to palm oil, and will only invest in companies with direct exposure to palm oil which show a commitment to best practices. Ethical Advisers Funds Management acknowledge that this is a controversial area. We will only invest when we believe the benefits to society outweigh any potential harm caused. We also engage

regularly with these investments to ensure that they are doing everything in their power to help transform the palm oil industry.

One example of a company in the portfolio which is involved in Palm Oil is Unilever, which produces nutrition, hygiene and personal care products. Unilever have strong goals for improving the health and wellbeing of their one billion customers, reducing environmental impacts, and enhancing the livelihoods for millions through partnerships with smallholder farmers and suppliers of raw materials, employees and communities. Unilever have reached their target of 100% physically certified palm oil. The company has committed to the principles of 'No deforestation, No development on peat, No exploitation of people and communities'. Often referred to as 'NDPE'.

We would never purchase shares in large international companies which use palm oil in junk foods, for example Pepsico, Mondelez or Mars.

#### Gambling- detail

Gambling companies are excluded from the portfolio. Not excluded are companies which indirectly support the gambling sector (telecommunications, which provide access to online gambling, for example). Companies which directly own gambling (casinos, pokies etc) will be excluded.

We would never purchase shares in gambling companies such as Tabcorp, Crown or Star Entertainment, as well as companies with significant gambling activities such as Woolworths.

#### Mining - detail

Uranium and coal mining companies are excluded. Not excluded are companies solely involved in lithium, cobalt, graphite or other rare earths used primarily for battery technology. However, strict environmental screens are applied to mining companies which include the type of mining (brine pools vs open cut mining, for example) and the end-of-life environmental rehabilitation processes.

We would never purchase shares in uranium or coal mining companies such as BHP Group or Rio Tinto. Some investments in utility companies may have indirect exposure to uranium power generation, however we do not invest in uranium mining companies.

#### Animal Cruelty - detail

Companies which test on animals for cosmetic purposes will be excluded, as well as companies involved in intensive farming and live exports. Not excluded are companies which are required to test on animals for medical purposes.

We acknowledge that testing on animals may be necessary (due to regulatory requirements or lack of viable alternatives) and will invest when the benefits to humans outweigh the harm caused to animals. However, any animal testing must be done in accordance with the Australian Code of Practice for the Care and Use of Animals for Scientific Purposes, must be consistent with industry best practice, or in accordance with the current Guideline for Good Clinical Practice (GCP) of the International Conference on Harmonisation (ICH).

An example of a company in the portfolio which conducts animal testing for medical purposes is Novo Nordisk, a global healthcare company headquartered in Denmark which is driving change to defeat diabetes and other serious chronic diseases. Novo Nordisk have a robust set of policies and procedures around bioethics generally, and animal testing specifically. The companies' bioethics policy sets out general operational guidelines and is consistent with their objective to strive to be economically viable, socially responsible, and environmentally sound (The Triple Bottom Line) by considering each of these elements when making business decisions.

### Genetic Engineering - detail

We do not invest in companies whose sole or main source of revenue is the commercial provision of genetic research, genetically modified products, or technologies and services that facilitate genetic modification; or that are involved in research aimed at the reproductive cloning of human beings or the creation of 'artificial life'.

We may invest in companies that utilise genetic engineering techniques to improve the environmental and health outcomes of certain medical, agricultural, industrial, household and other products and materials, as well as new genome editing tools that improve the efficiency and precision of genetic modification, provided such techniques and tools are safe for humans and the environment.

As an example, there is a Danish company called Novozymes in the portfolio, with an apicultural division working on improving corn and soy yields, and increasing drought and nematode resistance, using enzymes.

We would never purchase shares in the big GMO agriculture companies such as Monsanto, Bayer or Syngenta.

### Indirect Exposure

We note that some of the companies in the portfolio have indirect exposure to some sectors, such as alcohol, gambling, tobacco and nuclear power.

However, these exposures are small and the overall positive nature of the investment far outweigh the negatives. None of the companies in the portfolio have direct exposure to any of these sectors.

As an example, one of the companies in the portfolio manufactures recycled packaging, which is used to make cigarette cartons. Another company provides environmental management services to various companies which includes a nuclear power plant. While another company supplies turbines and piping to the natural gas industry as part of their broader business, but they also supply these items and wind turbines to the renewable energy sector.



## **Positive Screens in Detail**

We specifically target companies which are involved in positive environmental activities or which provide benefits to society, such as:

- Education
- Green property
- Healthcare and medical products and services
- Impact investments
- Renewable energy and climate change solutions
- Social and sustainable infrastructure
- Sustainable land and agricultural management
- Sustainable transport
- Sustainable water
- Medicinal cannabis
- Recycling and waste management
- Sustainable fashion and textiles/fashion technology
- Employment and vocational training
- Corporate Ethics, actively seeking companies that have positive employment diversity, community engagement and philanthropy
- Companies which are focused on improving their sustainability practices
- Biotechnology
- Sustainable Technology

EAFM look at a company's main source of revenue to determine whether or not they are involved in any of the above positive activities. While it is preferred, companies are not required to pass the positive screen to be included in the portfolios.

## **Public Disclosure of Holdings**

We disclose all shareholdings every 6 months with no more than 90 day lag. This is disclosed on our website. We keep our investors updated with a newsletter on a quarterly basis, providing ethical updates, financial information, and changes to investment holdings.

## **Corporate Engagement**

Ethical Advisers Funds Management Pty Ltd discloses all corporate engagement and is publicly available on our website. Louise Edkins is also a member of the Ethical Advisers Co-operative corporate engagement working group, engaging with NGOs, companies and shareholders on climate and social related issues.

## **Voting Policy**

Where possible we vote on shareholder resolutions to help influence outcomes aligned with the long-term interests of our investors. Unfortunately, because of the structure of the investments (as Separately Managed Accounts), we generally don't have the ability to vote at AGMs. Instead, we often provide advice to clients who own shares directly in companies to vote on issues at AGMs.

## **Monitoring**

We actively monitor our investments on an ongoing basis to ensure that the investments continue to align with the long-term interests and expectations of our investors.

EAFM periodically check that the portfolio constituents are not inconsistent with the exclusion screens by obtaining full underlying holdings from underlying fund managers (where applicable) on a regular basis (at least every six months) and by utilising external research from *Sustainable Platform* and *Ethos*.

If an owned investment contravenes our ethical charter, we will firstly engage with the company or investment manager on the ethical issue. If engagement is not successful, we will divest from the company or manager as soon as possible.

## **Key Roles**

### **Portfolio Managers**

#### **Terry Pinnell**

*Portfolio Manager and Head of Stewardship*

Terry has been an ethical investment specialist since 1993 and a charter member of Responsible Investment Association Australasia (RIAA). Terry is a Certified Financial Planner, has decades of experience in investment selection and portfolio management, and is currently the Chair of the Ethical Advisers' Co-Operative. Terry was one of the pioneers of ethical investment during the 1990s.

#### **Luke Price**

*Portfolio Manager and Head of Research*

Luke holds a Bachelor of Business (Finance), a Diploma (Financial Planning), and has a strong background in investment research and portfolio construction since 2009. Luke is the head of research, compliance and portfolio management. He is an Authorised Representative of Ethical Investment Advisers, and is currently on the board of the Ethical Advisers' Co-Operative.

The primary roles of the Portfolio Managers are to:

- Assess and monitor the research provided by the Investment Team and external research providers.
- Discuss investments suitable for the model at the regular meetings with the Investment Team.
- Agree on the overall construction of the portfolio including stock and sector weightings.
- Place trades for the models.

### **Investment Committee**

#### **Mark Forstmann**

*Independent Investment Analyst*

Mark has 27 years' experience in investment markets including equities, currencies and fixed interest. His career spans investment markets and film and television production. He holds a B.Sc. from Sydney University.

Mark worked at BankAmerica in Sydney, Banque Indosuez in both Sydney and Paris. He was also a director at Hunter Hall International for 15 years.

Mark served on the Board of the Nature Conservation Trust of NSW between December 2009 and May 2015. He is an independent director of Morphic Asset Management.

#### **David Bassanese**

*Independent Investment Analyst & BetaShares Chief Economist*

Chief economist at BetaShares, responsible for developing economic insights and portfolio construction strategies. Prior to BetaShares, David was an economic columnist for The Australian Financial Review (AFR) for over a decade. He graduated with first class honours

from the University of Adelaide, and a Master in Public Policy from the J.F. Kennedy School of Government at Harvard University.

**Louise Edkins**

*Head of Investment Team*

Louise is a Certified Financial Planner, Charter Member of Responsible Investment Association Australasia and a specialist adviser for ethically-screened Australian listed securities since 1994.

**Investment Team**

The Investment Team includes Stuart Barry, Karen McLeod, Hope Evans and James Baird. The Investment Team is responsible for conducting research and reviewing research obtained from external research providers.

**Stuart Barry**

*Investment Team Member*

Stuart has a strong background in fixed income investments. Stuart has worked for 27 years for organisations such as ING, Westpac and Queensland Treasury Corporation in various fixed income roles. In his last role he was in charge of ING's corporate institutional operations for both South Korea and Japan. Stuart is the author of 'The Rich Greenie'

**Karen McLeod**

*Investment Team Member*

Karen is a Certified Financial Planner and holds a Bachelor of Business and Diploma of Financial Services. She currently sits on the board of the Responsible Investment Association Australasia (RIAA). Karen has over a decade of specialised experience in ethical investing, portfolio management and investment research.

**Hope Evans**

*Investment Team Member*

Hope has been working in the finance industry since 2010 and has a strong passion for sustainable development, fossil fuel divestment and values-based investing. Hope also does volunteer work with climate change NGOs in her free time. Hope has completed a Master of Environmental Management (Sustainable Development) and Enhanced Financial Analysis through the Responsible Investment Academy.

**James Baird**

*Investment Team Member*

James is passionate about investing ethically and helping clients achieve their goals through the financial planning advice process. He has been in the finance industry since 2000. He has previously worked for CoreRatings, an Ethical Ratings agency which assessed material impacts of Environmental, Social and Governance (ESG) issues on a range of large companies. His role incorporated dealing with fund managers across Europe, including ABN Amro, Deutsche Bank, & Barclays Global Investor.

The primary roles of the Investment Team are to:

- Assess and monitor the research requirements of the models.
- Discuss and research investments suitable for the models.
- Recommend investments for inclusion/exclusion on the models.
- Monitor the quality of research obtained to ensure a high standard.
- Conduct additional research internally to ensure stocks are suitable for the portfolios.

The Investment Team will meet monthly at a minimum with the Investment Managers, and at other times as deemed necessary. All members of the Investment Committee will be responsible for conducting research and discussing investments for inclusion/exclusion on the portfolios.

## **Our Code of Ethics**

### **Client First**

Place the client's interests first at all times.

### **Integrity**

Provide professional services with integrity.

### **Objectivity**

Provide professional services objectively.

### **Fairness**

Be fair and reasonable in all professional relationships. Disclose and manage conflicts of interest.

### **Professionalism**

Act in a manner that demonstrates exemplary professional conduct.

#### **Confidentiality**

Protect the confidentiality of all client information.

### **Diligence**

Provide professional services diligently.

### **Reasonable Fees**

Provide all our services at a fair and reasonable rates.

### **Availability**

Be available to clients as much as possible, through email, phone and personal contact.

### **Environment**

Endeavor to be environmentally aware in our dealings.

### **Competence**

Maintain the abilities, skills and knowledge necessary to provide professional services competently, by continuous ongoing education.

### **Governance**

Be open and transparent in all our governance issues.

### **Social**

Be a good corporate citizen and involve ourselves in the local community.

### **Employment**

Be fair with our dealings with all our staff and any external service providers.