

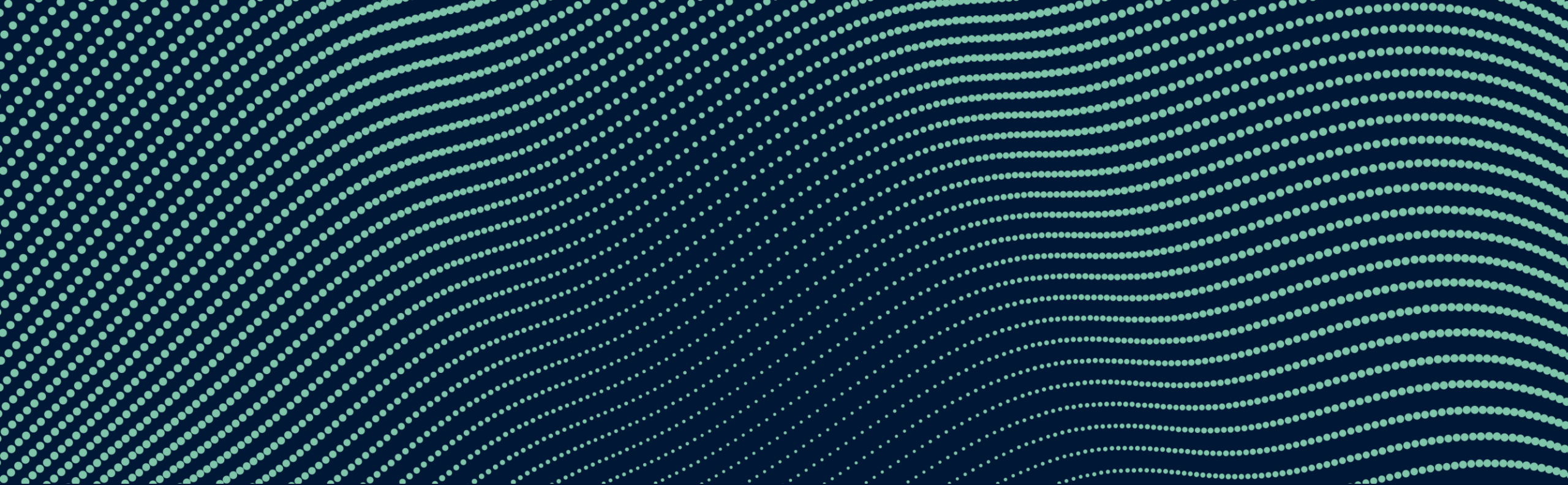


Why Environmental and Social Governance Matters

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What is ESG?

01

What is ESG?



Screening

- **Negative:** exclusion of sectors, companies or practices
- **Positive:** where sectors, companies or projects are selected based on positive ESG performance
- **Norms-based:** excluding investments that do not meet minimum standards of business practices based on international norms and conventions



ESG Integration

The systematic and explicit inclusion of ESG factors into financial analysis



Impact Investment

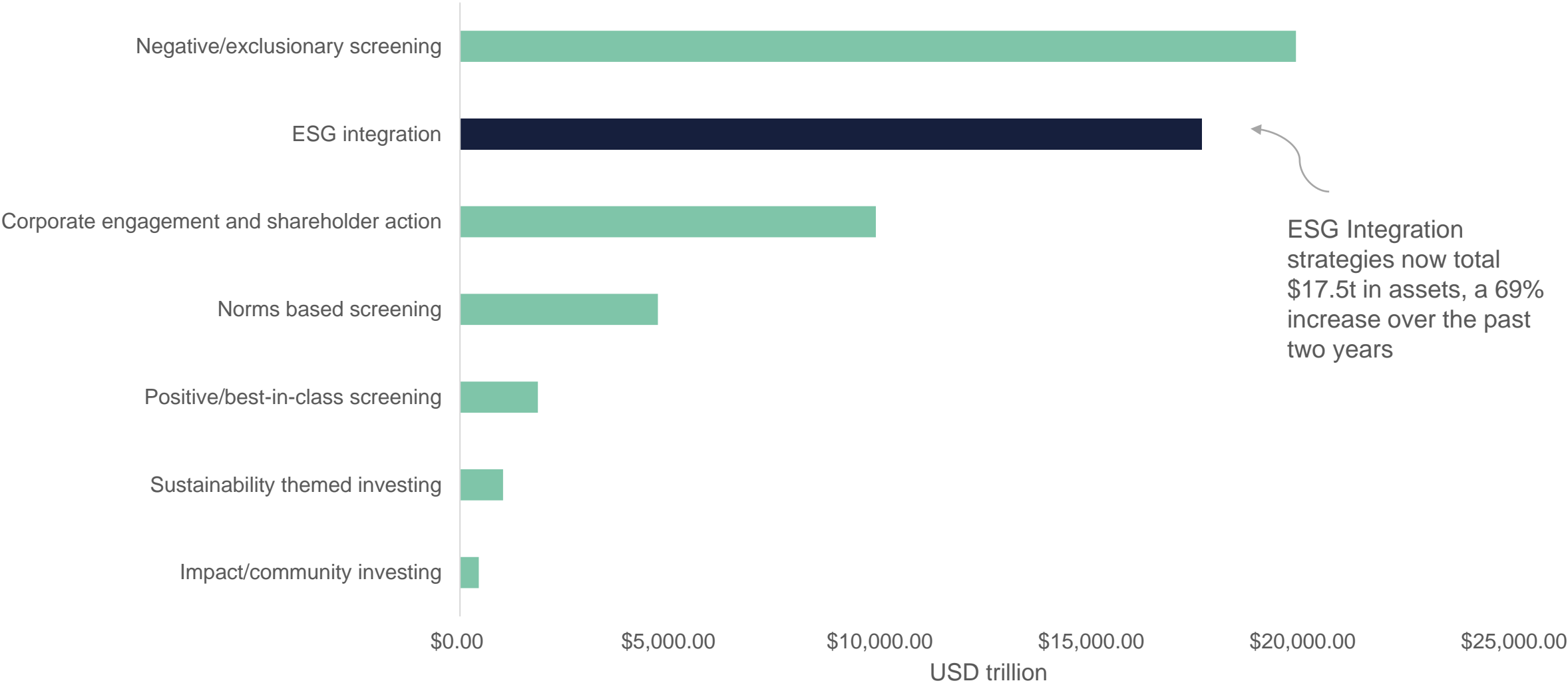
- **Sustainability themed:** Investment in themes or assets related to sustainability (eg. Green technology)
- **Impact:** investments aimed at solving social or environmental problems



Active ownership

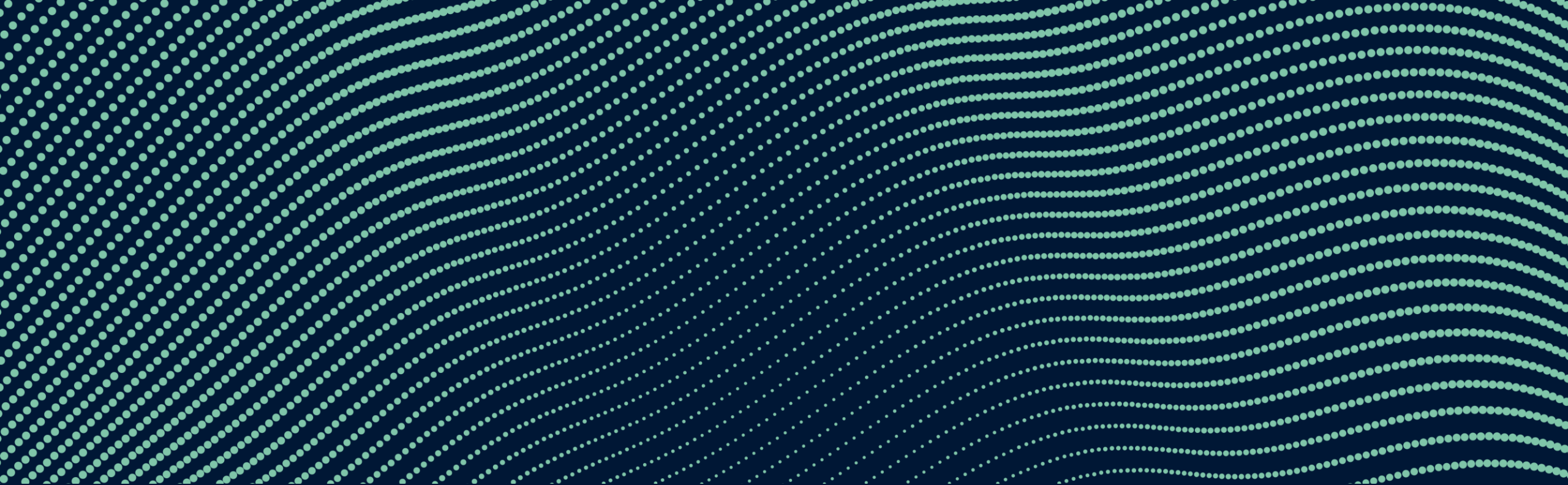
- **Company engagement**
- **Proxy voting**
- **Shareholder action**

Global Sustainable Investing by Strategy - 2018



No one right way, but many wrong ones

| AREA OF INVESTMENT PRACTICE | APPROACHES TO INTEGRATION | CASE STUDIES |
|--|--|---|
| Quality Assessment | <ul style="list-style-type: none"> - Developing an ESG quality score - Explicit section in company notes - Standing agenda item in team meetings - Sustainability factor in multi-factor assessments - Earnings quality | Our Global Listed Infrastructure team integrates ESG analysis through a quality assessment and ranking model. |
| Valuation | <ul style="list-style-type: none"> - CAPM adjustments (e.g. beta) - Discount rate - Expected growth rate - Margins - WACC - Removal of assets from valuation | Our Global Property Securities team rates all stocks in the universe on ESG factors, which are used to determine the beta in the pricing model. |
| Engagement | <ul style="list-style-type: none"> - Increase confidence in company - Engage for value adding change - Proxy voting - Collaborative engagements | Our Australian Equities Growth team has an active dialogue with chairpersons and company management on material ESG issues, which flows into proxy voting and investment decisions. |
| Industry Collaboration/ policy advocacy/ societal engagement | <ul style="list-style-type: none"> - Policy and regulatory certainty - Improved disclosure practices - NGOs as information source - New investment structures/approaches | Our organisation actively participates in a number of industry initiatives including in Australia, the Responsible Investment Association of Australasia and the Australian Sustainable Finance Initiative. |



Drivers for the growth of ESG

02

Consumer demand

9 in 10 Australians expect their superannuation or other investments to be invested responsibly and ethically.

Half of Australians (49%) expect their advisers to invest in funds which align with their values.

63% of Australian expect their advisers to incorporate their values or consider the societal or environmental implications of particular investments.

56% of Australians feel there is not enough independent information available regarding switching to a responsible or ethical super fund.

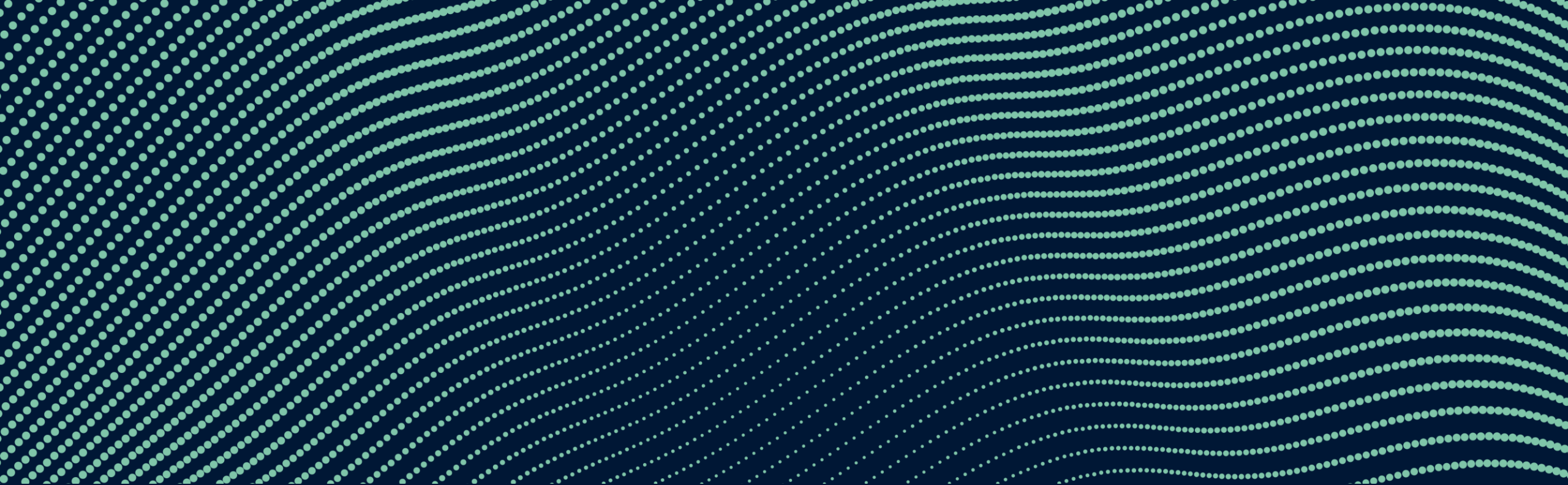
Millennials are the most likely generation to consider changing super providers if their current fund engaged in behavior not consistent with their values.

7 in 10 (69%) Australians would rather invest in a responsible super fund that considers the environmental, social and governance issues of the companies it invests in and maximises financial returns, rather than a super fund which considers only maximising financial returns (31%). This attitude has increased by 27% since 2013.

Regulatory changes

| Europe | UK | Australia | New Zealand | Hong Kong |
|--|---|---|---|---|
| <ul style="list-style-type: none"> • Sustainable Finance Action Plan includes sustainability as a central pillar of EU regulatory agenda • Sustainable Finance Disclosure Regulation introducing mandatory sustainability disclosure | <ul style="list-style-type: none"> • Has announced mandatory TCFD* reporting from 2023-2025 • Is likely to adopt at least parts of the EU action plan post-Brexit | <ul style="list-style-type: none"> • Australian Sustainable Finance Initiative recommends mandatory TCFD reporting and mandatory sustainability disclosure | <ul style="list-style-type: none"> • Has announced mandatory TCFD reporting from 2023 • Sustainable Finance Forum's Roadmap for Action recommends all products labelled as sustainable be certified | <ul style="list-style-type: none"> • Securities and Futures Commission currently consulting on climate-related risk disclosure |

* Taskforce on Climate Related Financial Disclosures

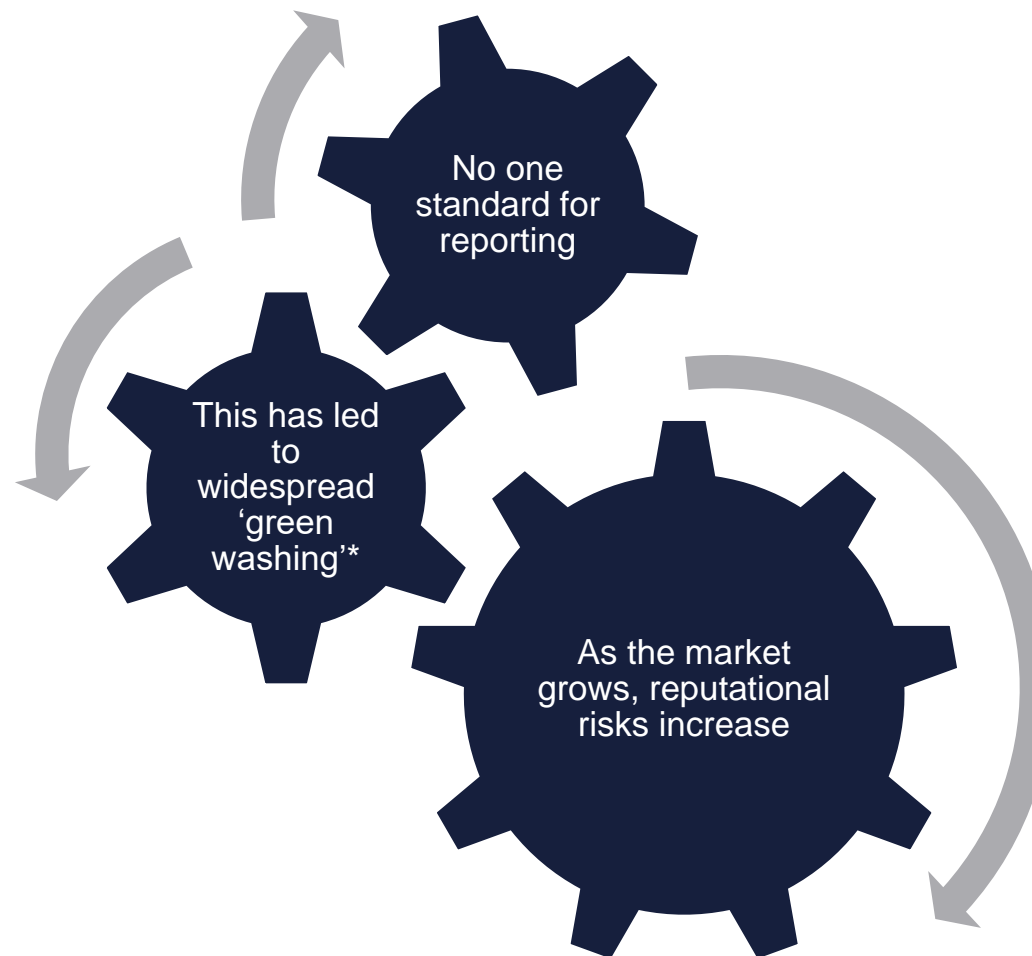


Measuring and reporting ESG issues

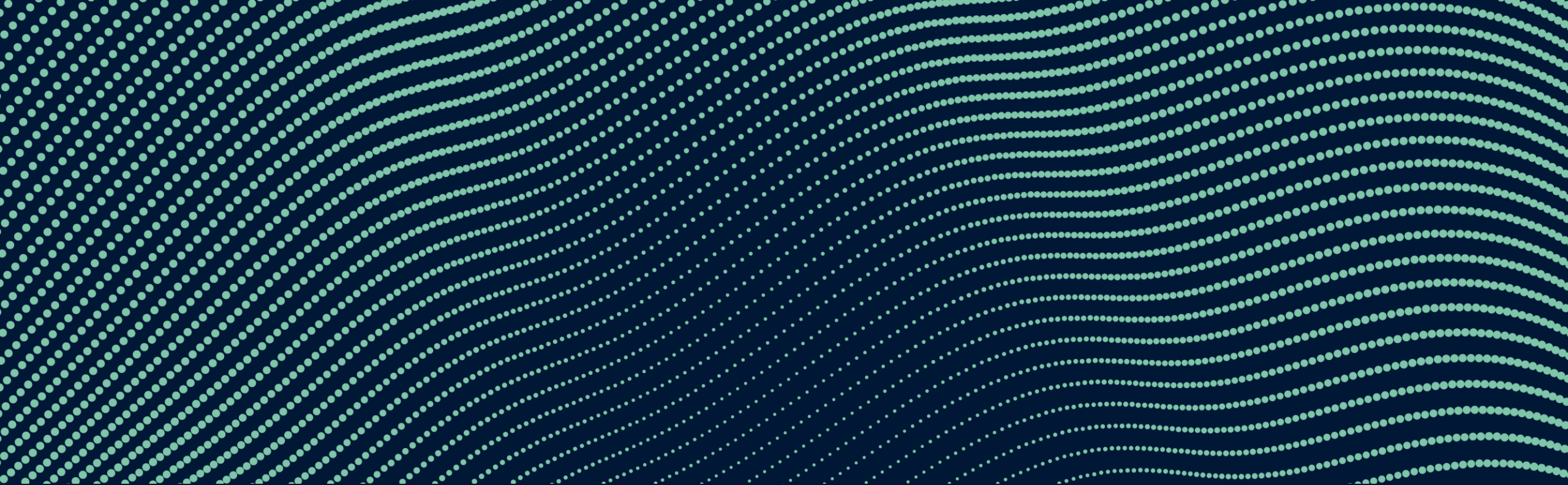
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Challenges of measuring and reporting on ESG

- There are a number of challenges involved in measuring and reporting on ESG issues and integration.
- Regulators globally are trying to address these issues but there remains no one standard for reporting.



* Where products are marketed in a way which creates a false impression that they have environmental and/or social benefits.



Internal audit's role

04

Internal audit's role

Test compliance with policy statements and disclosure on a regular basis. Is the team/product doing what it says it is doing?

Over time as regulation comes into force, test compliance with those regulations.

Assess effectiveness of governance of ESG across the business. Are there effective ESG controls in place?

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