March 2023

North

A guide to ESG investing

Adviser use only

MyNorth Sustainable Managed Portfolios

Superior

SQM RESEARCH

Message from Edwina Maloney and Simon O'Connor

"As global leaders grapple with the challenge of reducing the impact of climate change, investors are more than ever considering how to align their investment choice with their values.

Whether it's carbon emissions, community engagement or working conditions, your clients are increasingly looking for environmental, social and governance (ESG) investing options. It's not only about avoiding potentially harmful industries such as fossil fuels, gambling and tobacco. They're also looking for companies that are making a positive difference to people's lives.

In light of these trends, we've been busy improving our client experience by building out more sustainable investing solutions. We have tripled the number of ESG investment options on the North platform over the last year and have added two new risk profiles to MyNorth Sustainable Managed Portfolios so your clients can choose the investment strategy that best suits them.

We're formalising our ESG policies and strengthening our selection and reporting process.

By putting values at the heart of the investment process, ESG investing can play an active role in making Australia a better place for future generations.

After all, just because people want to build their wealth doesn't mean they need to lose sight of what they believe in."

Edwina Maloney
Director – Platforms, AMP

"Despite the turbulence and unpredictability that the COVID pandemic has delivered over these past two years, the market for responsible and sustainable investing in Australia has continued to soar in popularity and shows no signs of slowing down.

There are several reasons for this, including the important realisation that ESG factors are critical to investment decisions due to their impact on valuations and returns.

From climate change to modern slavery, regulators and policy makers are also articulating the relevance of and mandating consideration of some of these factors in investment decision making.

We continue to witness growing demand from Australians that their money is invested in line with their values – avoiding harm at minimum and at best, positively contributing to a more equitable and prosperous society and healthy environment.

Perhaps most significantly, the evidence continues to mount that responsible investments, on average, perform better than their mainstream counterparts and are resilient to shocks such as COVID and the transition to net zero.

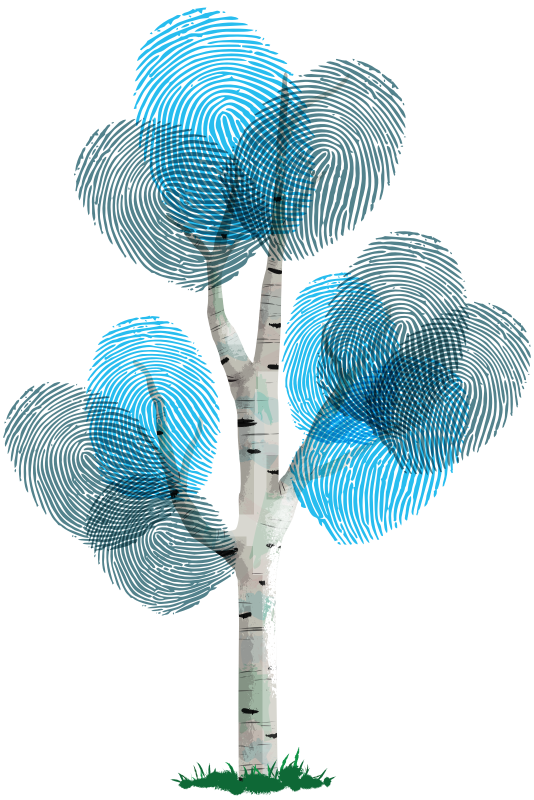
Fortunately, the array of responsible investment products on the market is keeping up with the demand, with new and diverse solutions that meet the varying needs of investors across asset classes, return profiles, investment horizons and impact themes. The Responsible Investment Association Australasia (RIAA) has now certified over 300 quality and true to label responsible investment products which meet the Responsible Investment Standard.

The transition to a more sustainable economy is firmly underway. We look forward to you playing a role in unlocking the billions of investment dollars waiting to flow into our businesses and communities, alongside delivering your clients a superior investment strategy."

Simon O'Connor
CEO – Responsible Investment Association Australasia

Contents

What does ESG mean?	4
Growing investor demand for ESG	5
Guiding your clients through responsible investment options	7
How ESG investing is evolving	8
CIO Research team cuts through the traps for the unwary	14
Common misconceptions about ESG investing	15
MyNorth Sustainable Managed Portfolios	19
Glossary	23
Insights into the investment managers	25
Actions speak louder than words	35
Get in touch	36



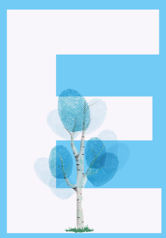
What does ESG mean?

As an industry, we're increasingly aware that to get a picture of a company's true value we need to move beyond standard financial metrics.

Environmental, social and governance (ESG) investing covers a wide range of sustainable and responsible investment approaches. While governance has traditionally carried the most weight of these three pillars, environmental and social factors have gained importance in recent years as investors become more concerned about issues such as climate change, working conditions and community relations.

Understanding a company's impact on the environment and society is being integrated in board strategies, and managing environmental and social risks will become the new standard by which corporate governance is judged.

ENVIRONMENTAL



- Climate change
- Carbon emissions
- Resource depletion, including water or deforestation
- Pollution and waste management
- Protecting biodiversity
- Energy efficient technologies

Environmental risks refer to the impact of business activities on air, land, water, ecosystems, resources and human health. Companies can respond constructively by managing resources more efficiently, reducing emissions and climate impact, and adopting science-based environmental monitoring or reporting.

These actions should improve investment returns by reducing:

- capital costs
- regulatory costs, and
- litigation and reputational risk.

SOCIAL

- Working conditions, including modern slavery and child labor
- Disability inclusion
- Local communities, including First Nations peoples
- Health and safety
- Employee relations and diversity
- Privacy and data protection

Social issues can arise in many parts of the workplace, the supply chain and the broader community.

Strong social performance can grow brand value, support talent acquisition and help to win larger clients such as governments or institutional investors with social mandates.

GOVERNANCE

- Executive pay
- Anti-bribery and corruption
- Whistleblower protections
- Political lobbying and donations
- Board diversity and structure
- Tax strategy
- Anti-money laundering and counter-terrorism financing

Governance concerns the discipline with which companies make decisions and manage risks. This includes board skills and capabilities, independence and diversity, corporate risk management and oversight, executive compensation and KPIs, reporting and disclosure.

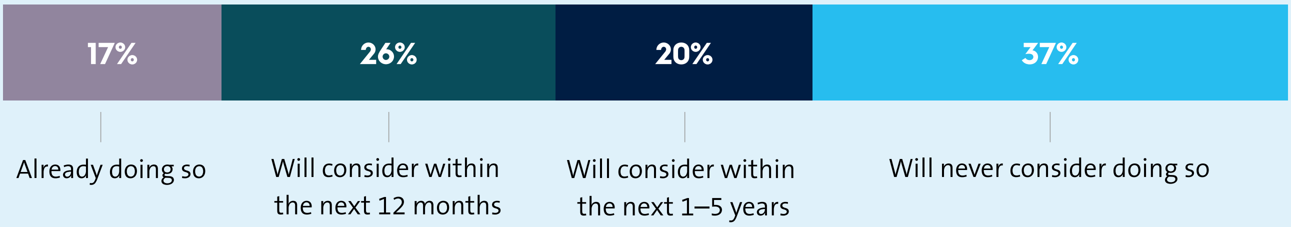
Good governance aligns the interests of shareholders and management, and helps to avoid unexpected financial surprises.

Growing investor demand for ESG

Australia's responsible investment market reached a record $1.5 trillion in assets under management, now representing 43% of total professionally managed funds.[1] Awareness of, and demand for, responsible and ethical investment continued to grow strongly in Australia throughout 2021. The proportion of Australians with responsible investments rose 28% to 17%, driven largely by Gen X and Millennials. Four out of five Australians now expect their bank account and super to be invested responsibly ethically, and 80% expect their savings to have a positive impact on the world.[1]

Likeliness of investing responsibly or ethically

When, if ever, would you be most likely to consider investing in ethical companies, funds or superannuation funds that aim to create positive social and environmental impacts? Gen Pop 18+ (Base n=1,097)



Source: Responsible Investment Association Australia, From Values to Riches 2022: Charting consumer demand for responsible investing in Australia, pg. 8.

Three-quarters (75%) of the population are more likely to invest in responsible investment products that have been certified or labelled as responsible by an independent third party.[2]

4 out of 5 Australians expect their bank account and their super to **be invested responsibly and ethically.**

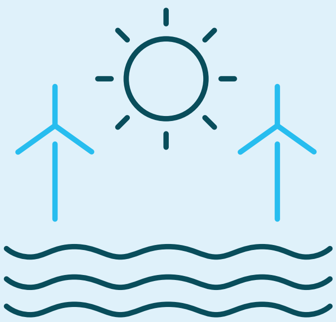
74% of Australians would consider moving to another provider if they found out their current fund was investing in companies engaged in activities not consistent with their values.

Source: Responsible Investment Association Australasia, From Values to Riches 2022: Charting consumer demand for responsible investing in Australia, p8.

1 Responsible Investment Association Australasia, 2022 Benchmark Report, pg. 6 and pg. 10.
2 Responsible Investment Association Australasia, From Values to Riches 2022: Charting consumer demand for responsible investing in Australia, pg. 7.

The vast majority

of Australians expect their super to be invested responsibly and ethically,

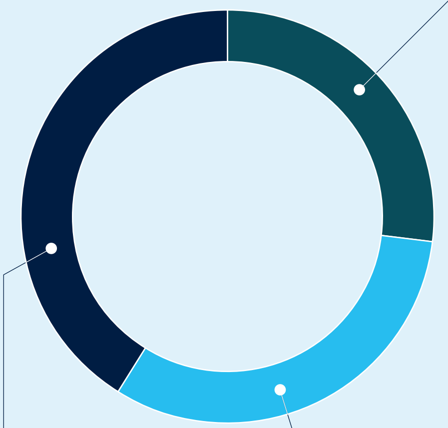


such as through investing in companies that build clean energy infrastructure or avoiding investments that can harm communities such as weapons manufacturing.

Australians investing ethically

17%

of Australians state they are already invested in ethical companies, funds or super funds that aim to create positive social and environmental outcomes.



20%

stated that they will consider this in the next 1–5 years.

26%

are planning on investing in ethical companies, funds or super within the next 12 months.

Source: Responsible Investment Association Australasia, **From Values to Riches 2022: Charting consumer expectations and demand for responsible investing in Australia**, pg. 8.

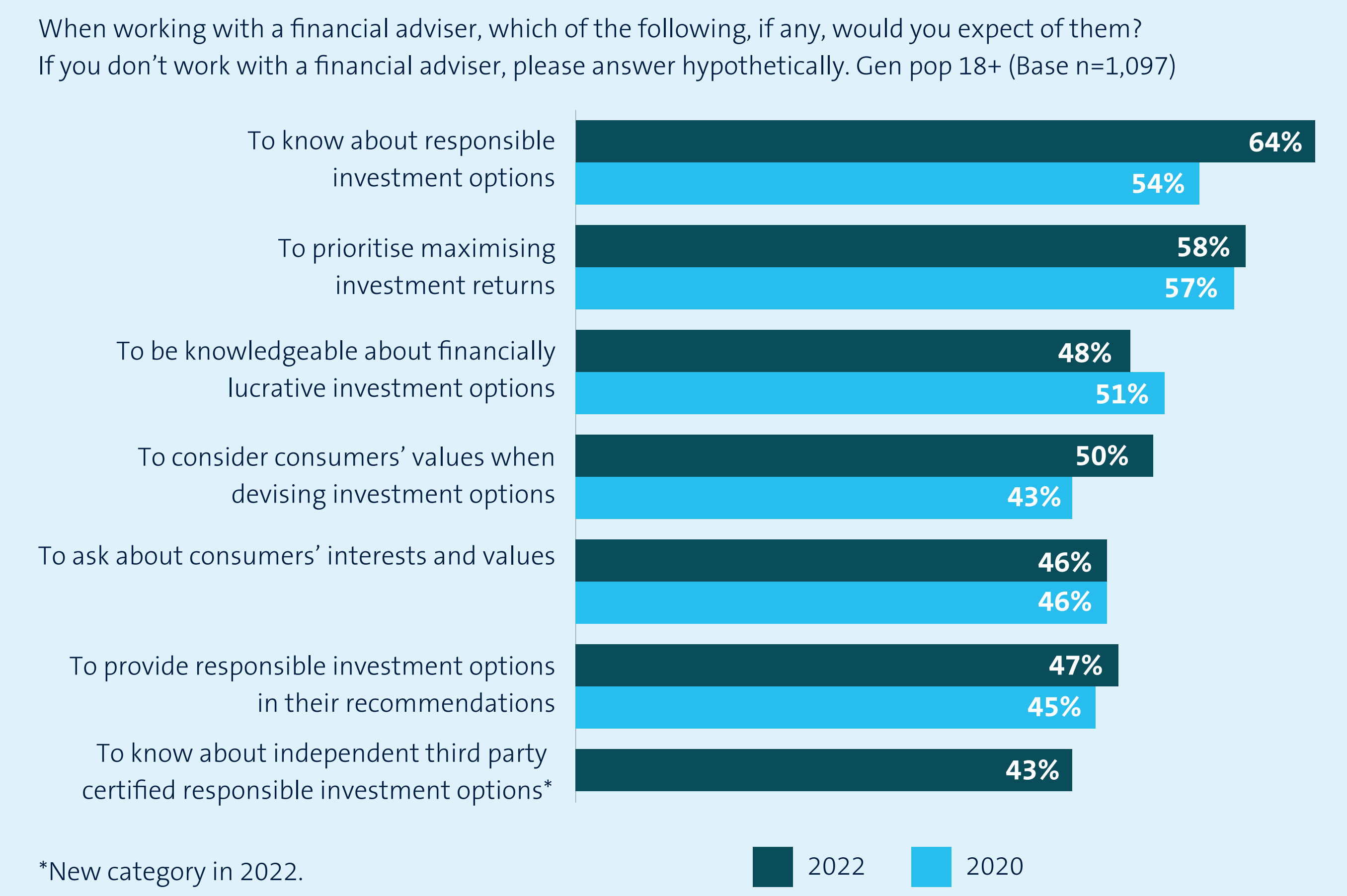
Guiding your clients through responsible investment options

There are increasing demands on financial advisers to upskill on ESG. Australians now expect their financial adviser to know about responsible investment options. At the same time, under a new code of ethics, advisers are expected to actively consider their clients' broader long-term interests and likely circumstances by asking questions about their ESG investment preferences.[3]

Demand is rising among Australians of all ages and wealth levels, with 33% of investors choosing investments based on ESG principles and another 11% intending to do so over the next 12 months.[4] Over half (57%) of current ESG advisers have seen an increase in client demand for responsible investments over the past year. Demand is strongest from client groups that initiate most of their responsible investing discussions with their advisers.[5]

As you can see in the chart below, the number one expectation Australians have of their financial adviser is to be knowledgeable about responsible investments (64% in 2022, an increase from 54% in 2020) overtaking the priority of maximising investment returns for the first time. The expectations that financial advisers will recommend ethical and responsible options and know about independently certified products also continue to increase from 2020.[6]

Expectations of financial advisers



Source: Responsible Investment Association Australasia, From Values to Riches 2022: Charting consumer expectations and demand for responsible investing in Australia, pg. 16.

3 The Financial Adviser Standards and Ethics Authority, Code of Ethics Standard 2020.
4 Investment Trends 2022 ESG Investor Report, pg. 14.
5 Investment Trends ESG Adviser Report 2022, pg. 7.
6 Responsible Investment Association Australasia, From Values to Riches 2022: Charting consumer expectations and demand for responsible investing in Australia, pg. 16.

How ESG investing is evolving

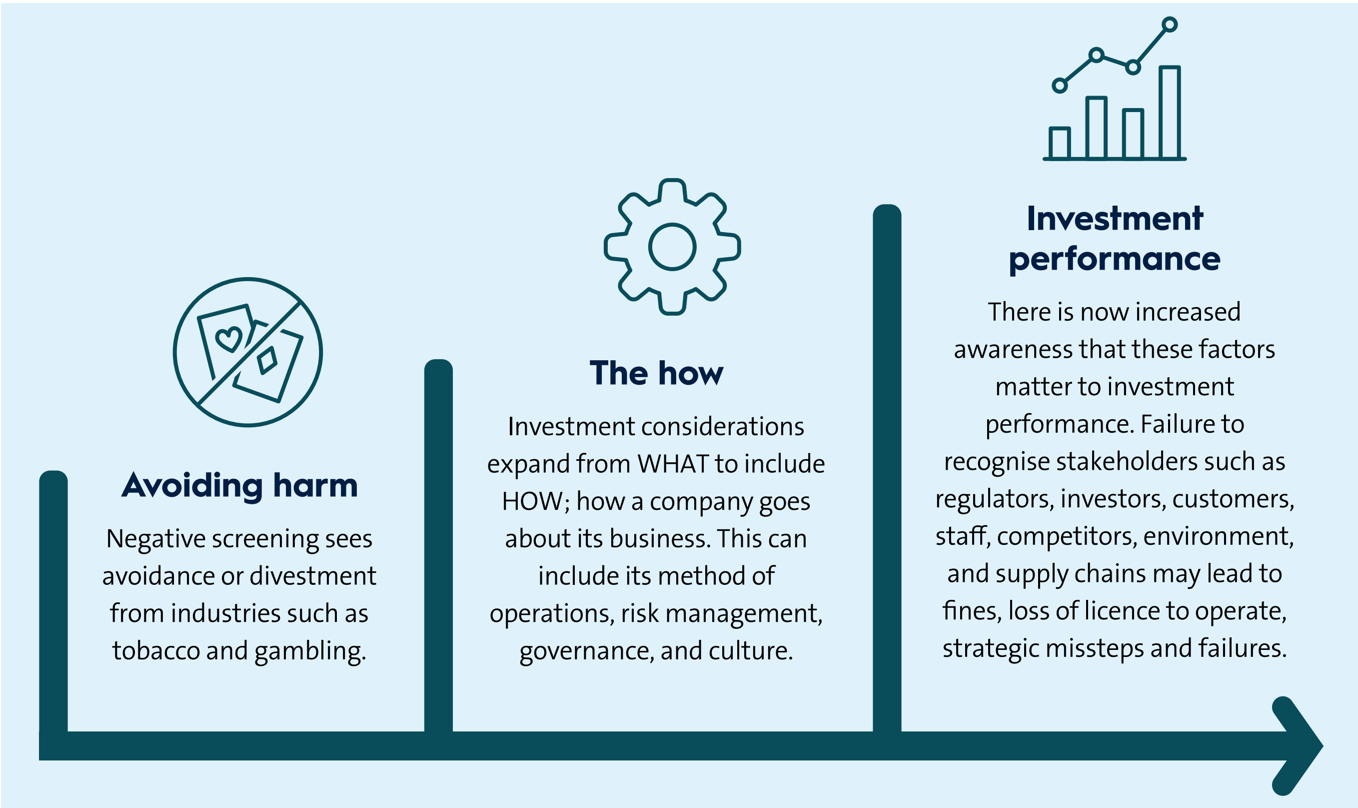
Early ESG strategies were mainly focused on avoiding harm, taking the relatively simple approach of excluding companies involved in industries such as tobacco, fossil fuels, firearms and gambling. In line with investor expectations and the deeper understanding of ESG issues, this ‘negative screening’ has broadened to encompass wider issues such as human rights and animal cruelty.

ESG investing continues to evolve, reflecting heightened awareness among regulators, investment managers and investors of how environmental, social and governance factors can affect the financial health of individual companies and wider economies.

1. **Regulators** are increasingly focusing on managing climate risks and the effect on financial stability, with the path to net zero emissions set to be a dominant theme for years to come.

2. **Investment managers** are becoming more proactive by engaging with companies through proxy voting, leading policy initiatives and holding boards accountable to higher ESG standards.

3. And **investors** are demanding improved disclosure of ESG factors such as board and workforce diversity.



Reflecting a growing interest in environmental issues and social justice, some investment managers have responded by developing ESG-themed funds, which focus on the role a company’s products or services play in a more sustainable future, like renewable energy or healthcare. Other types of funds are focusing on companies developing better working conditions or anti-corruption policies.

Investors are now looking at how a company goes about its business – does it effectively manage all its risks and opportunities? Any deficiencies can affect a company’s value, due to reputation damage, fines, or loss of licence.

Reporting of responsible investment practices has improved, with several investment managers publishing inaugural ‘stewardship’, ‘responsible investment’, or ‘impact’ reports, or separate climate policies. Investment managers are experimenting with new tools to convey messages about the positive impacts and outcomes that investments deliver in addition to financial returns. While framing impacts and outcomes aligned to the UN Sustainable Development Goals is most common, many investment managers have also developed their own impact measurement tools internally.[7]

7 **Responsible Investment Association Australasia, 2022 Benchmark Report**, Pg. 6.

Four ways companies are taking the lead on ESG

The Responsible Investment Association Australasia (RIAA) has identified four key areas in which companies can excel in ESG investing and become Responsible Investment Leaders[8].

1. **Coverage of and commitment to responsible investing and transparency.**
2. **Enhancing risk management through explicit and systematic consideration of ESG factors and other screens, including reporting of these.**
3. **Being strong stewards for more sustainable and resilient assets and markets.**
4. **Allocating capital to benefit stakeholders and contribute to solutions as well as measurement and reporting of outcomes.**

But blind spots remain. Even Responsible Investment Leaders can "falter when it comes to allocating capital to target sustainability outcomes". Measuring outcomes is the next challenge for investment managers genuinely committed to responsible investment.

Different ways to implement ESG

ESG integration

ESG integration refers to the systematic and explicit inclusion of ESG risks and opportunities in investment analysis. Using ESG integration an investment manager can:

– highlight risks and adjust their earnings forecast and valuations
– uncover opportunities
– engage with companies on material ESG issues
– communicate to the market to encourage improvements.

Screening

Investment managers can use screening to define their investment universe.

– **Negative screening** involves excluding companies, controversial industries or investments regarded as objectionable – for example, the Tobacco Free Finance Pledge.
– **Positive screening** allows investment managers to tilt portfolios towards companies with superior ESG performance compared with their peers in areas such as renewable energy. This can provide more opportunities for asset managers to generate returns while meeting ESG performance objectives.

Thematic investing

Thematic investing is based on social, industrial and demographic trends. These can include ESG issues such as clean technology, green real estate, sustainable forestry, agriculture, education and health. According to the RIAA Responsible Investment Benchmark Report Australia 2022, sustainably themed investments grew from $76 billion in 2020 to $161 billion in 2021, suggesting that this approach is the next big trend in Australian responsible investment practice. Climate changes was the most prominent theme, followed by waste management, zero waste and circular economy (second place) and sustainable forestry, land management and agriculture in third place.[9]

Impact investing

Impact investing looks for companies that generate and measure social and environmental benefits alongside a financial return. It favours assets with a verifiable positive outcome, such as developing affordable housing. The drivers for this type of investment include the need to make big social and environmental changes to meet the needs and challenges of our human ecosystem.

Active ownership

Investment managers can influence companies to improve ESG practices by working closely with senior company managers to understand ESG factors and make sure the strategic direction of the company serves the long-term interests of their investors.

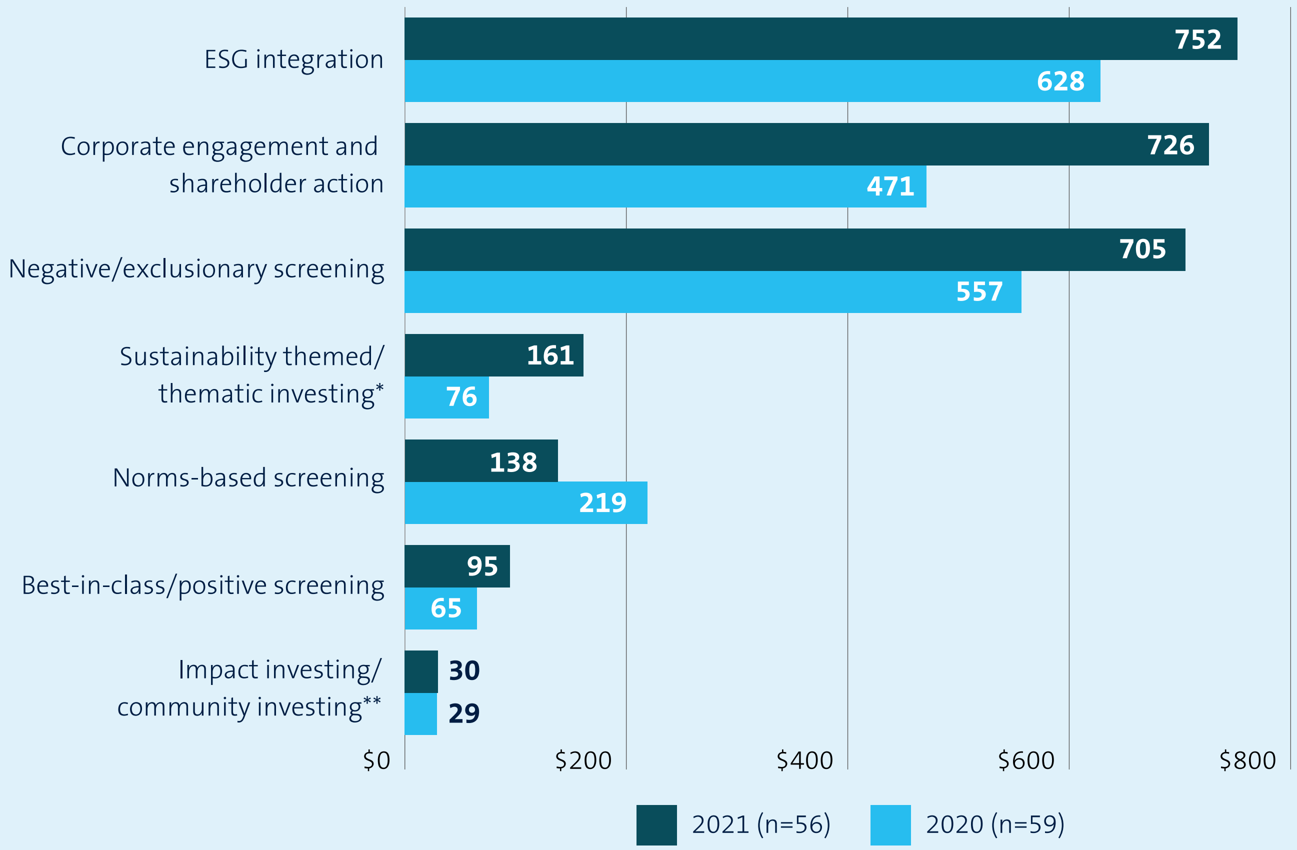
There are many other ways to increase active ownership, including proxy voting, shareholder resolutions, class action lawsuits and the 'Wall Street Walk', where institutional investors prompt a company into action by threatening to sell their shares.

8 Responsible Investment Association Australasia, Responsible Investment Benchmark Report 2022 Australia pg. 12.
9 Responsible Investment Association Australasia, Responsible Investment Benchmark Report 2022 Australia pg. 6.

How Australian investment managers implement ESG

As you can see in the graph below, ESG integration is the most popular approach, followed by corporate engagement and shareholder action, and negative screening.[10]

Total AUM covered by responsible investment approaches of survey respondents



*Includes sustainability-linked loans sourced via desktop research from NAB Sustainable Finance Updates in 2021.

**Includes green, climate, social impact bonds sourced via desktop research from KangaNews and NAB Sustainable Finance Updates in 2021.

Source: RIAA Responsible Investment Benchmark Report Australia 2022.

10 Responsible Investment Association Australasia, **Responsible Investment Benchmark Report 2020 Australia** pg. 8.

Examples of sustainable companies

How sustainable investment is helping Australians

HEALTHCARE

Burden of disease analysis quantifies the size of health problems. Recent studies found that Australians were dying prematurely from:

- cancer (93% of total cancer burden),
- injuries (82%), and
- cardiovascular diseases (79%).

Risk factors contributing the most burden were:

- tobacco use,
- overweight and obesity, and
- dietary risks.

Source: Australian Institute of Health and Welfare (2020), **Burden of disease**.

alphinity INVESTMENT MANAGEMENT

An investment changing the burden of disease

Alphinity Investment Management sees value in investing in companies that promote healthy lives and well-being. CSL Limited (CSL) has been one of the stocks in the portfolio.

It is a good example of a company that positively contributes to society and that has also done well for Alphinity's investors.

CSL is a global biotechnology company that develops innovative medicines to help improve peoples' health, presenting strong alignment to goal three of the UN's Sustainable Development Goals; Good Health and Well-being. CSL is a leader in immunoglobulin which is used around the world by people with immune deficiencies. It also produces drugs that treat bleeding disorders like haemophilia and is a pioneer in vaccines combating the flu.

The company is seeing an improvement in donor collections which were impacted during the Covid-19 pandemic. This is expected to improve fixed cost recovery as volumes improve back to pre-Covid levels, further underpinned by ongoing strong demand for CSL's products over the long term and positive pricing improvements. Following a period of underperformance, improving collections has the potential to support earnings upgrades in the future, however, there remains some risk to guidance in the short term from higher costs. At the time of writing, Alphinity believes that CSL's medium term earnings are underestimated from a combination of growth from existing and new products, however, there remains some risk to earnings in the short term as higher costs are absorbed including higher donor fees and staff costs.

Outcomes we all want

To make healthcare and education on healthcare available to all – means saving lives and supporting economic growth through reduced burdens of disease on households, communities and economies.

This addresses the United Nations' Sustainable Development Goals (Number 3 – Good Health and Well-being) through its life-saving products.[11] See page 24 of this guide for more information on the UN goals.

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11 **Source:** PRI Association, **SDGS Investors and the Sustainable Development Goals.**

AFFORDABLE HOUSING

Australian housing affordability has deteriorated over the past 30 years, particularly in the eastern capital cities. Alongside this development, rental affordability has also suffered. One outcome of this issue is increasing homelessness, in addition to more Australians living in rental or housing stress (when housing costs account for more than 30% of gross income):

- Homelessness in Australia rose by 14% to 116,000 over the five years to 2016
- 11% of Australians are living in housing stress
- 47% of low-income households in capital citiesare living in rental stress
- 727,300 additional social housing dwellings will be needed over the next 18 years.

Source: National Housing Finance and Investment Corporation (2020).

PENDAL

Impact investing to improve housing affordability

Recognising the need to address the growing issues of housing affordability, the Australian Government established the National Housing Finance and Investment Corporation (NHFIC) in 2018.

Its mission is to improve housing affordability by increasing supply, providing loans to support housing activities by the government and through improving community housing.

It is this last area that is particularly important in the affordable housing landscape. Community Housing Providers (CHPs) provide long-term housing for those on low incomes and groups with special housing needs. There are roughly 370 CHPs in Australia with providers in all states and territories, with the majority located in New South Wales.

In order to maintain their operations or construct new facilities, providers need access to funding. Unfortunately, this may require frequent refinancing at higher interest rates. This is where the NHFIC can assist. Through its bond aggregation program it's able to issue bonds to investors in the Australian marketplace at competitive rates and with long-term maturities. It can then pass through these benefits in the form of financing to CHPs. In March 2019, the NHFIC issued its first bond as part of this program, which raised $315 million in capital.

Pendal is a big supporter of the issue. Its ESG-aligned fixed interest funds participated in the deal as it served a dual purpose for the portfolios. It built on the tilt towards active ESG investments in green, social and sustainable bonds, as well as offering an attractive return to risk ratio.

Outcomes we all want

To make housing available to all – reducing homelessness and saving lives.

The bond meets the standard for classification as a Social Bond by the International Capital Market Association. As part of this classification, an annual audit will be conducted by an independent organisation to verify how the proceeds are being invested.

The issue aligns with several of the UN Sustainable Development Goals (1, 10 and 11).

INDUSTRIAL REAL ESTATE

Gone are the days of the old warehouse.

The warehouse of today is a logistic space, efficiently delivering to consumer demands of the same day or next day delivery. They are in key urban cities, use advanced technology, and are built to be ecologically sustainable.

MACQUARIE

Investing to make space for greatness – sustainable properties

Macquarie sees value in investing and developing high quality industrial properties in strategic locations, close to large urban populations and in major gateway cities globally, where demand is strong for E-commerce.

Goodman Group (Goodman) owns, develops and manages industrial and commercial real estate, delivering an integrated customer service offering to their customers.

Goodman has a sustainability vision aligned with its purpose of **making space for greatness**. It believes this approach leads to positive economic, environmental and social outcomes for its business, stakeholders and the world more broadly. Goodman's 2030 Sustainability Strategy is structured around three pillars – property, people and culture.[12]

Outcomes we all want

To make industrial properties that are fit for purpose, efficient to run and flexible for customers' requirements. In addition, support health and wellbeing and resilient to climate impacts.

The investment is aligned with several of the UN Sustainable Development Goals (3, 5, 7, 8, 11, 12, and 13).

12 **Source:** Goodman Group, **Goodman Sustainable webpage**.

CIO Research team cuts through the traps for the unwary

As ESG investing has become increasingly popular, the lack of common definitions and standards has led to a wide variation of ESG practices and even greenwashing, where a company makes exaggerated claims about its products or performance.

This has proven to be a challenge for investors seeking truly sustainable funds. As with any other investment product or service, the responsible entity issuing a managed portfolio should make sure investment managers have the resources, skills and capabilities to manage their funds, and the funds are true to label.

The CIO Research team is responsible for the investment manager due diligence for the MyNorth Sustainable Managed Portfolios.

How the team assesses the MyNorth Sustainable Managed Portfolios investment managers

The CIO Research team takes a number of factors into account when appraising investment managers, including:

- How the team translates its sustainable investing philosophy into the **investment process**.
- How much weight it gives to ESG in its **investment decisions** and portfolio construction.
- How it **influences company activities** through constructive engagement and proxy voting.
- How the team **manages portfolios** using its ESG resources, skills and proprietary tools.
- How the team demonstrates its **commitment to external standards**, such as the United Nations Principles for Responsible Investment (UNPRI) or product certification by the Responsible Investment Association Australasia (RIAA).
- How it references **external ESG ratings**.

The CIO Research team's fund appraisals include assessment of ESG practices via meetings with key investment personnel, questionnaires and case studies. They also look at sustainability reports that outline company engagement activity and investment decisions.

After the initial due diligence process, they regularly monitor funds to check the investment managers continue to perform in line with their investment and ESG principles.

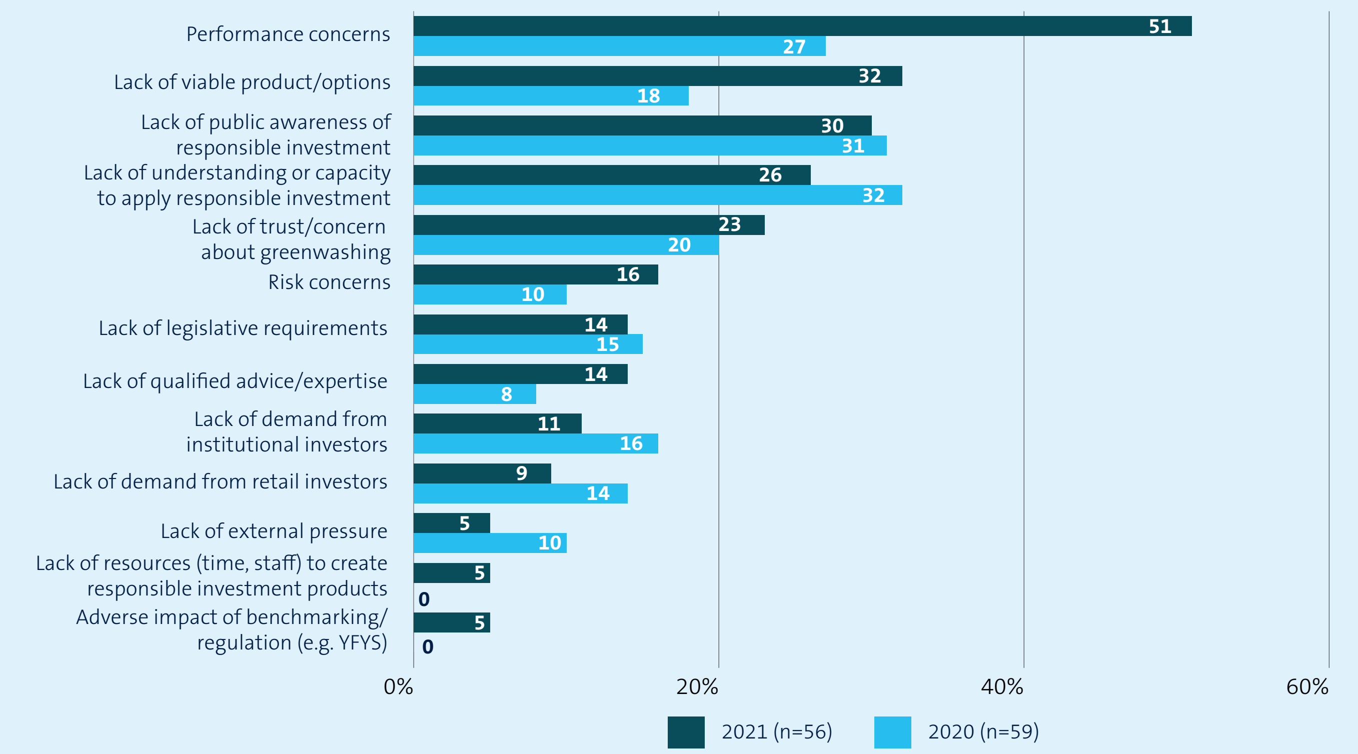
Their evaluation process will continue to evolve in response to changes in client requirements, sustainable investing and ESG practices.

Common misconceptions about ESG investing

RIAA conducts a yearly survey of the responsible investment market. One of the questions they explore is why some investors don't embrace ESG investing. Many of the issues raised are misconceptions that can be easily addressed.

Challenges and objections

Key deterrents to responsible investment market growth by survey respondents



Source: Responsible Investment Association Australasia, Responsible Investment Benchmark Report 2022 Australia, pg.24

" For many investors there is still a misconception that investing in projects that deliver a positive environmental or social impact means a compromise on returns. There is now a growing recognition that individual investments can play a pivotal part in finding environmental and climate solutions as well as delivering healthy returns.

Our strategies aim to provide a solution for private clients who not only desire for their investment to achieve above market returns, they are also passionate about it delivering a positive social and environmental impact. It's important to note these are long term investments for those who understand and accept the level of risk involved.

We are an active manager aiming to provide investment returns for our clients by consistently applying our specialist expertise, taking a long term perspective and, as asset managers acting on behalf of owners, acting responsibly.

Our investments are based on our strong conviction that population dynamics, resource scarcity, inadequate infrastructure and environmental constraints will profoundly shape global markets, creating investment risks and opportunities. We expect that these trends, reflecting the transition towards a more sustainable global economy, will drive earnings growth for well-positioned companies. Our proprietary investment framework identifies and calibrates the rising risks and expanding opportunities from this transition, and guides our search for investments. "

Hubert Aarts
Deputy CIO, Listed Equities, Executive Director
Impax Asset Management

PERCEPTION	REALITY
› There is no benefit to performance	The RIAA Responsible investment benchmark report for Australia 2022 confirms responsible investments continue to make financial sense. The key highlights from the report are as follows: – Average performance of responsible investment and traditional funds were significantly better than the previous year. – RIAA certified products on average outperformed industry benchmarks (e.g. Morningstar benchmarks), in the multi sector growth category, and over the long or medium term in the other categories. – Responsible investment products continue to outperform traditional funds in the multi-sector growth category on all timeframes and typically stay on par with international or domestic share funds in the medium term, and underperform over the 1-year timeframe.

Performance of responsible investment funds, RIAA certified products and mainstream funds (average, net of fees over 10 years) across 1, 3, 5 and 10 years.

	2020				2021			
Fund categories/benchmarks	**1 year**	**3 year**	**5 year**	**10 year**	**1 year**	**3 year**	**5 year**	**10 year**
RIAA certified products: managed growth**	^	^	^	^	19.3%	19.1%	16.8%	25.7%
Responsible investment fund average-multi-sector growth funds	7.2%	7.4%	7.9%	8.2%	16.1%	14.0%	10.6%	10.9%
Morningstar category: Australia fund multi-sector growth*	2.9%	5.3%	6.4%	6.9%	14.1%	10.9%	7.9%	8.8%
RIAA certified products: international equity**	^	^	^	^	24.1%	21.2%	16.7%	29.2%
Responsible investment fund average: international share funds	8.3%	11.0%	11.4%	10.1%	18.1%	17.3%	12.3%	11.3%
Morningstar category: Australia Fund Equity World Large Blend*	5.7%	9.5%	9.8%	11.7%	24.6%	18.1%	13.4%	15.1%
RIAA certified products: Domestic equity (Aus/NZ)**	^	^	^	^	17.0%	20.1%	13.2%	23.3%
Responsible investment fund average: Aus/NZ share funds	1.7%	5.3%	7.4%	8.1%	16.6%	14.8%	11.8%	11.2%
Morningstar category: Australia Fund Equity Australia Large Blend*	1.7%	5.5%	7.5%	7.0%	18.3%	13.7%	9.3%	10.1%
S&P/ASX 300 Total Return*	1.7%	6.9%	8.8%	7.8%	17.5%	14.0%	9.9%	10.8%

Average responsible investment fund outperformed (+1%)
Average responsible investment fund on-par with market (+/- 1%)
Average responsible investment fund underperformed (-1%)

^Data supplied by Morningstar
**Data supplied by Plan For Life
^ Data not reported in 2020

Source: Responsible Investment Association Australasia, **Responsible Investment Benchmark Report 2022 Australia**, pg. 15.

PERCEPTION	REALITY
› The public has low awareness of ESGs	Investment Trends' 2022 ESG Investor Report highlights that responsible investing is now a mainstream consideration in portfolio allocation. Recent events like COP26 have induced an important mind shift among next wave ESG investors. The same source shows that Australian investors have a reasonably high level of awareness of ESG. On average, current ESG investors would like to increase their alignment with responsible investments to 64% of non-super assets (vs 48% currently) and 51% of their super balance.[13] As many as 267 Australian and New Zealand ESG investment providers have signed the United Nations Principles for Responsible Investment (UNPRI), making Australia one of the most active countries for ESG Awareness.[14]

13 Investment Trends. February 2022 ESG Adviser Report. p6.

14 UNPRI Signatory Update July – September 2022 pg 39.

PERCEPTION	REALITY
There aren't enough viable products/ options	The ESG product range continues to expand to meet increased demand and allow clients the flexibility to tailor their investments. The RIAA has certified over 300 products as responsible investments. Over the last year, North has added around 58 investment options across both passive and active strategies as well as different ESG approaches. There are now 78 investment options available on the North platform. Here's a list of sustainable managed and exchange traded funds on North, of which, more than half are RIAA certified.

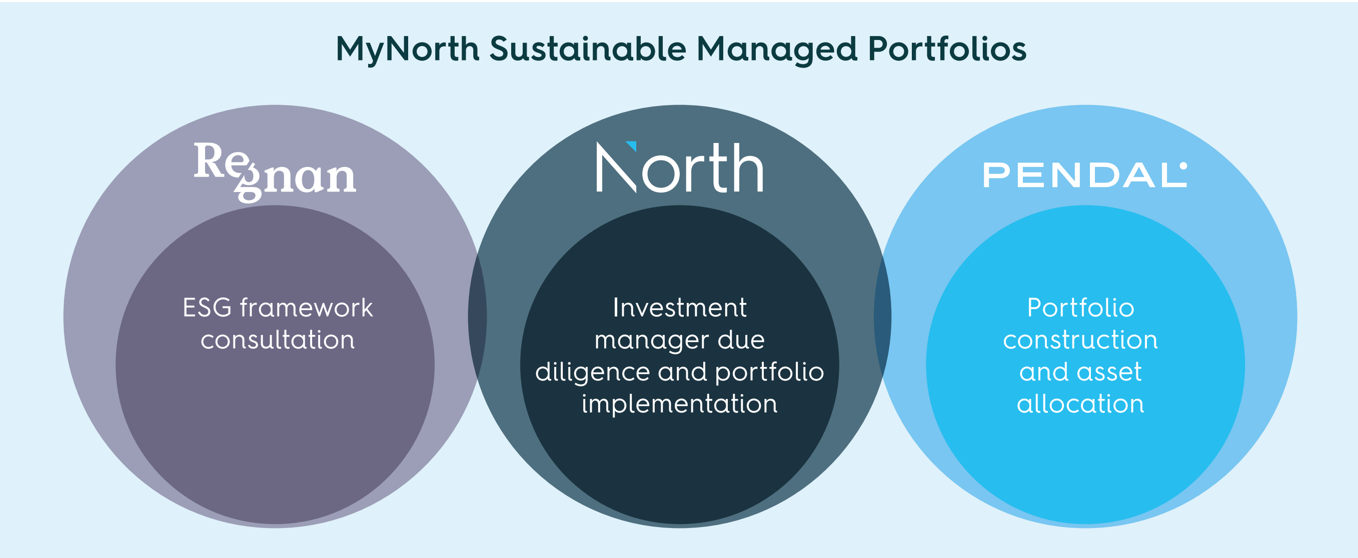
APIR	Fund name
MGL0114AU	Aberdin Sustainable Australian Equity Fund
HOW0121AU	Alphinity Sustainable Share Fund
AAP3940AU	Ausbil Active Sustainable Equity
AUG0018AU	Australian Ethical Australian Shares Fund
AUG0027AU	Australian Ethical Emerging Companies Fund
ETL0171AU	AXA IM Sustainable Equity
FSF4018AU	Baillie Gifford Global Stewardship Fund – Class A
STL0055AU	Bendigo Socially Responsible Growth Fund
FAIR	BetaShares Australian Sustainability Leaders ETF
ERTH	BetaShares Climate Change Innovation ETF
DBBF	BetaShares Ethical Diversified Balanced
DGGF	BetaShares Ethical Diversified Growth
DZZF	BetaShares Ethical Diversified High Growth
ETHI	BetaShares Global Sustainability Leaders ETF
HETH	Betashares Global Sustainability Leaders ETF
GBND	BetaShares Sustainability Leaders Diversified Bond
BAR0813AU	BlackRock Diversified ESG Growth Fund
BAR0811AU	BlackRock Diversified ESG Stable Fund
ARO0006AU	BNP Paribas C WorldWide Global Equity Trust
ETL0521AU	BNP Paribas Green Bond Trust
AAP0001AU	Candriam Sustainable Global Equity Fund
DFA7518AU	Dimensional Sustainability World Allocation 70/30 Trust
DFA4137AU	Dimensional Sustainability World Equity Trust
DFA0002AU	Dimensional Two-Year Sustainability F/I Trust (iv)
IMPQ	eInvest Future Impact Small Caps Fund (Managed Fund)
PIM0541AU	First Sentier Responsible Listed Infrastructure Fund
PIM6646AU	First Sentier Responsible Listed Infrastructure Fund – Hedged Class
FSF0016AU	First Sentier Wholesale Concentrated Australian Share Fund
FRT0009AU	Franklin Global Growth Fund
ETL8171AU	Impax Sustainable Leaders Fund
IESG	iShares Core MSCI Australia ESG Leaders ETF
IHWL	iShares Core MSCI World ex Australia ESG Leaders (AUD Hedged) ETF
IWLD	iShares Core MSCI World ex Australia ESG Leaders ETF
BLK4636AU	iShares ESG Global Bond Index Fund – D Class
FUTR	Janus Henderson Global Sustainable Equity
SSB4946AU	Martin Currie Ethical Income Fund – Class A
SSB0064AU	Martin Currie Ethical Values with Income Fund – Class A
SLT2171AU	Nanuk New World
RFA0025AU	Pendal Horizon Fund
BTA0507AU	Pendal Sustainable Australian Fixed Interest Fund
BTA0122AU	Pendal Sustainable Balanced Fund
RFA0811AU	Pendal Sustainable Conservative Fund
HHA0007AU	Pengana WHEB Sustainable Impact Fund
WPC5600	Perennial Better Future Trust
WPC5600AU	Perennial Better Future Trust
PER1744AU	Perpetual Ethical SRI Credit Fund-Class A
PER0116AU	Perpetual Ethical SRI Fund (W) (iii)
PIC6396AU	PIMCO ESG Global Bond Fund
PDL5969AU	Regnan Credit Impact Trust
WHT0014AU	Resolution Capital Real Assets Fund – Class A
RARI	Russell Investments Australian Responsible Investment ETF
RIM8665AU	Russell Investments Low Carbon Global Shares Fund – Class A
RIM8525AU	Russell Investments Low Carbon Global Shares Fund – Class AUDH
SCH0003AU	Schroder Sustainable Global Core Fund
E200	SPDR S&P/ASX 200 ESG Fund
SST0057AU	State Street Climate ESG International Equity Fund
PIM1937AU	Stewart Investors Global Emerging Markets Leaders Sustainability Fund
FSF1675AU	Stewart Investors Worldwide Sustainability Fund
PER2095AU	Trillium ESG Global Equity Fund – Class A
PER4964AU	Trillium Global Sustainable Opportunities Fund – Class A
ESGI	Vaneck MSCI International Sustainable Equity ETF
CLNE	Vaneck Vectors Global Clean Energy Etf
GRNV	VanEck Vectors MSCI Australian Sustainable Equity ETF
VAN4509AU	Vanguard Ethical Conscious Australian Shares Fund
VETH	Vanguard Ethically Conscious Australian Shares ETF
VAN2989AU	Vanguard Ethically Conscious Global Aggregate Bond Index Fund
VEFI	Vanguard Ethically Conscious Global Aggregate Bond Index Hedged ETF
VESG	Vanguard Ethically Conscious International Shares ETF
VAN8175AU	Vanguard Ethically Conscious International Shares Index
VAN0848AU	Vanguard Ethically Conscious International Shares Index Fund (AUD Hedged)

MyNorth Sustainable Managed Portfolios

Listening to you and your clients, we've designed MyNorth Sustainable Managed Portfolios to help clients build their wealth and invest in line with their values. These managed portfolios are available in three risk profiles: Conservative, Balanced and Moderately Aggressive.

Designed with the experts in the field and combined with hand-picked managers

The principles of the portfolios were developed by the CIO Research team in close consultation with Regnan, a leading responsible investment advisory company. The portfolios are managed by Pendal's Multi-Asset team in partnership with the CIO Research team.



The solution within a modern managed portfolio

Managed portfolios are an efficient way to deliver a sustainable packaged value proposition, ensuring that changes in client portfolios are implemented quickly and uniformly, reducing the risk of any implementation delays or loss of market position.

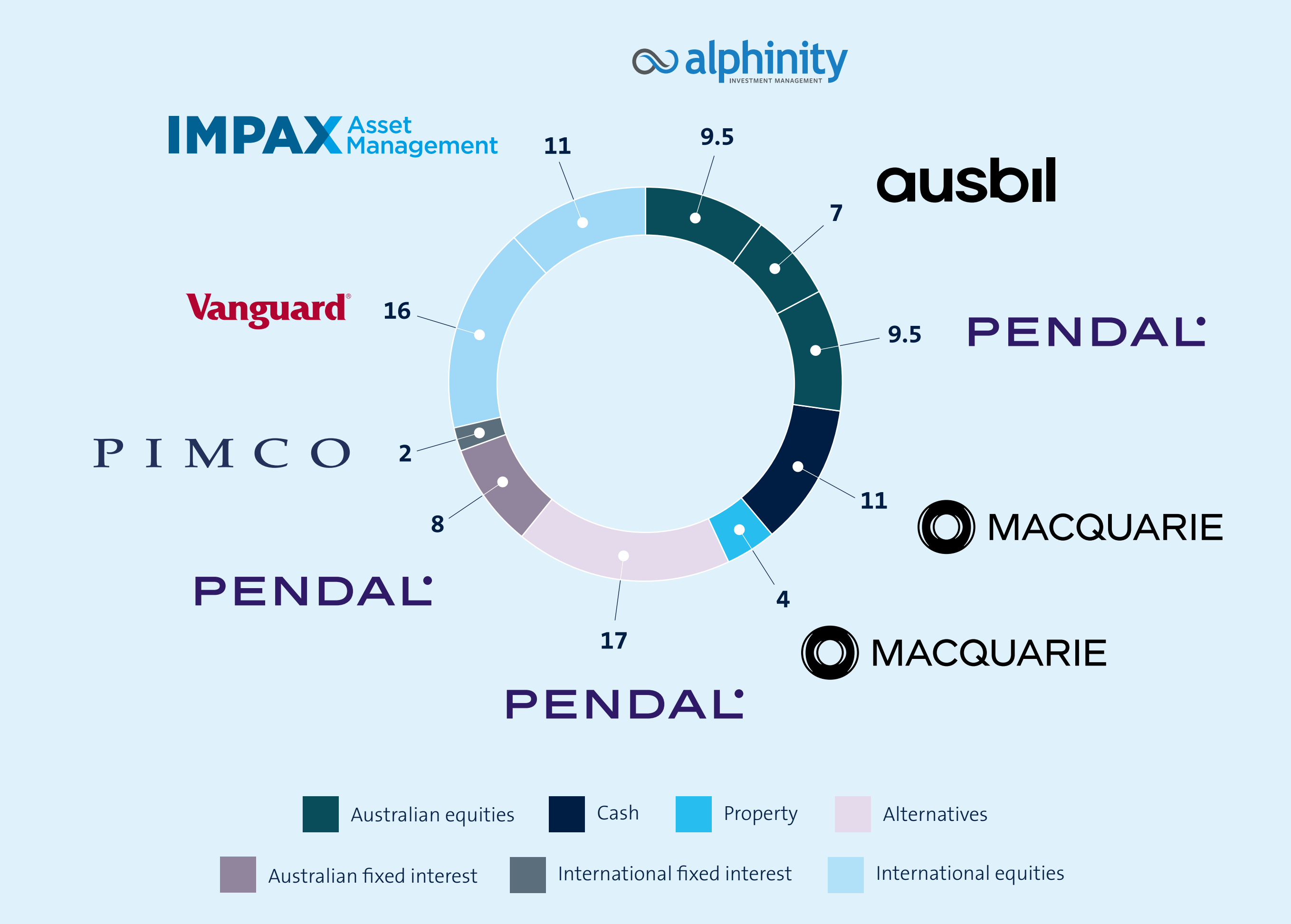
> " At a time of unprecedented change in the advice market, one of the few parts of retail financial services which have continued to grow at the sorts of rates we were used to seeing in the past have been managed accounts. Managed accounts have grown to over $110 billion at a growth rate of over 20% per annum for the past three years. This is because managed accounts really do deliver, for advisers and their clients, a set of benefits which are really quite unique. "

Toby Potter
Chair, Institute of Managed Account Professionals

CIO Research hand-picked the managers

Not all responsible investment solutions are created equal. The CIO Research team selects investment managers with real integrity and who are aligned to the ESG principles for the managed portfolios.

Leading managers across asset classes for MyNorth Sustainable Balanced Managed Portfolio



Refer to the glossary for insights into each of the managers.

The above asset allocation data is current as at 29 August 2022 and is relevant to the Balanced profile.

Portfolio overview

	MODERATELY CONSERVATIVE	BALANCED	MODERATELY AGGRESSIVE
Investment objective	This managed portfolio seeks to provide moderate returns over the medium term through a diversified portfolio of defensive and growth assets.	This managed portfolio seeks to provide moderate to high returns over the medium to long term through a diversified portfolio of growth and defensive assets.	This managed portfolio seeks to provide moderately high returns over the long term through a diversified portfolio of primarily growth assets and some defensive assets.
Minimum investment horizon	4 years	5 years	6 years
Benchmark(i)	Morningstar Australian Multisector Balanced Average Category	Morningstar Australian Multisector Growth Average Category	Morningstar Australian Multisector Aggressive Average Category
Investment management fee	0.20% pa of client's portfolio balance	0.20% pa of client's portfolio balance	0.20% pa of client's portfolio balance
Total estimated indirect costs	0.64% pa	0.67% pa	0.72% pa
Total estimated management costs	0.84% pa	0.87% pa	0.92% pa
Risk band/label	4/ Medium	5/ Medium to high	6/ High
Minimum investment amount	$500	$500	$500
Portfolio income	Income will be reinvested	Income will be reinvested	Income will be reinvested
Target growth/defensive exposure(ii)	50 / 50 (Growth / Defensive)	70 / 30 (Growth / Defensive)	85 / 15 (Growth / Defensive)

Indicative asset allocation ranges

Growth assets	Min	Max	Min	Max	Min	Max
Australian shares	0	30	7	37	11	41
International shares	7	37	16	46	25	55
Listed property/ Infrastructure	0	22	0	25	0	28
Alternatives	0	21	0	22	0	21
Defensive assets	**Min**	**Max**	**Min**	**Max**	**Min**	**Max**
Australian fixed interest	8	38	0	29	0	20
International fixed interest	0	30	0	24	0	19
Cash	0	27	0	22	0	21

(i) The Morningstar benchmark is calculated based on the average performance from peers in the same Multisector category.
(ii) As of December 2021. Please refer to the PDS for further information regarding fees, costs and risk profile.

The principles

› Transitioning to a low carbon economy

When you have a trusted expert like David Attenborough stating that "even the very worst outcomes of the COVID-19 pandemic are nothing on the scale of what is eventually feared will be the catastrophic implications of climate change",[15] then you know that investment strategies must start adding their voices, and their weight of money to supporting this transition.

› Avoiding material investments in thermal coal, tobacco, gambling, pornography, and controversial weapons

The evidence is that clients often have a conscience when it comes to their investments, and are prepared to vote with their wallets. Avoiding investments that do not align with client values is important in a sustainable portfolio. The MyNorth Sustainable Managed Portfolios aims to avoid the most common investor concerns.

› Encouraging positive social outcomes

The greater economic community cares about the social environment that it operates and lives within.

> "Most recently managers are looking at the impact that companies have not just on their own long-term performance, but also the impact of their activities on our broader economic and social systems. This includes the potential implication of their activities the performance of other companies within investor portfolios as well as the community and planet more broadly. This approach recognises the need to consider both the interconnectedness of the system and the net impacts of company actions."
>
> Alison Ewings, Head of Engagement at Regnan.

Sustainable reporting and ongoing education

Clients value transparency and want to know how their investments are performing. By reporting on all transactions—including the portfolio constituents—and on value outcomes the client is informed and feels in control.

Quarterly reporting highlights notable sustainable investments and engagements/stewardship activities as well as the performance of the portfolios.

SQM Research rating

In its recent review SQM Research has assigned a Superior/High Investment grade rating to the MyNorth Sustainable Managed Portfolios. The rating means that the portfolios are:

– Suitable for inclusion on most APLs.
– Have an appreciable potential to outperform over the medium-to-long term.

Find out more about the MyNorth Sustainable Managed Portfolios and SQM Research review at **northonline.com.au/mynorthesg**.

15 **Source:** The Daily Telegraph, **Sir David Attenborough: Coronavirus pandemic has swept climate change off the front pages.**

Glossary

Responsible Investment Association Australasia

The Responsible Investment Association Australasia (RIAA) champions responsible investing and a sustainable financial system in Australia and New Zealand. RIAA is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.

With over 450 members managing more than US$29 trillion in assets globally, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand.

Regnan

Regnan has a long and proud history of providing insight and advice to investors with an interest in long term, broad-based or values-aligned performance.

Since its inception, Regnan has grown into a globally recognised responsible investment leader. We support some of the world's most influential investors, investor networks and responsible investment initiatives.

Since 2019, Regnan has expanded into investment funds management with a focus on impact and sustainable thematic investing. More information is available at regnan.com

UN Sustainable Development Goals[16]

UN PRI

The United Nations-sponsored Principles for Responsible Investment (PRI) was launched in 2006. There are six Principles that have become the standard for sustainable investments. The UN PRI has 2,250 signatories representing over US$80 trillion of assets under management.

It is an international network of signatories that incorporate environmental, social and governance factors into their ownership and investment decisions. Their mission is to achieve a sustainable global financial system as they believe it is a necessity for long-term value creation. To achieve this goal, members adopt six Principles. The Principles are:

- Incorporating ESG issues into investment analysis and decision-making processes.
- Being active owners and incorporating ESG issues into ownership policies and practices.
- Seeking appropriate disclosure on ESG issues in the invested entities.
- Promoting acceptance and implementation of the Principles within the investment industry.
- Working together to enhance effectiveness in implementing the Principles.
- Reporting on activities and progress towards implementing the Principles.

16 **Source:** PRI Association, **SDGS Investors and the Sustainable Development Goals**

Insights into the investment managers

alphinity
INVESTMENT MANAGEMENT

> Alphinity Investment Management (Alphinity) is a boutique equities investment manager based in Sydney.

Alphinity Sustainable Share Fund

Alphinity believes the integration of environmental, social and corporate governance considerations into their investment management processes and ownership practices is essential, as these factors can have a significant impact on financial performance. Sustainability is imperative for all companies, and fund managers have an active role to play in ensuring that the companies they invest in are taking responsibility for ESG issues. Fund managers need to actively monitor the compliance of investee companies to ensure they live up to best practice in this area.

Alphinity:
- has been a signatory of the UN PRI since 2011
- is a member of the Responsible Investment Association of Australasia (RIAA)
- supports the UN Sustainable Development Goals and has run an SDG-aligned strategy since 2018.

How Alphinity integrates ESG into their investment process

The integration of environmental, social, and corporate governance factors into Alphinity's investment management processes and ownership practices is essential to their success as investment managers. The Alphinity Sustainable Share Fund goes a step further by actively considering whether a company can help achieve the UN's 17 Sustainable Development Goals (SDGs).

Alphinity aim to invest in companies that can deliver net positive outcomes for society and the environment by supporting at least one of the SDGs, providing they do so with strong ESG management practices. That also means that they recognise companies with activities against these goals. They brought the SDG analysis and assessment methodology in-house during 2021.

Alphinity track focussed ESG engagements, proxy voting activities, and support investor-led change through collaborative engagements. Building on their existing ESG integration processes, they recently introduced a materiality assessment tool to support their investment team to consistently identify and assess ESG issues for companies across all their portfolios. Determining sustainability and ESG performance isn't always black and white so they have established a sustainable committee with two highly reputable independent experts who assist them in working through the many grey areas. Alphinity apply a very focused investment process to find quality, reasonably valued companies that are able to deliver better earnings than the market expects.

Stock example

An investment changing the burden of disease

CSL is a global biotechnology company that develops innovative medicines to help improve peoples' health, presenting strong alignment to goal three of the UN's Sustainable Development Goals; Good health and well-being. CSL is a leader in immunoglobulin which is used around the world by people with immune deficiencies. It also produces drugs that treat bleeding disorders like haemophilia and is a pioneer in vaccines combating the flu.

The company is seeing an improvement in donor collections which were impacted during the Covid-19 pandemic. This is expected to improve fixed cost recovery as volumes improve back to pre-Covid levels, further underpinned by ongoing strong demand for CSL's products over the long term and positive pricing improvements. Following a period of underperformance, improving collections has the potential to support earnings upgrades in the future, however, there remains some risk to guidance in the short term from higher costs. At the time of writing, Alphinity believes that CSL medium term earnings are underestimated from a combination of growth from existing and new products, however, there remains some risk to earnings in the short term as higher costs are absorbed including higher donor fees and staff costs.

ausbil

> Ausbil is an Australian specialist boutique firm established in 1997 with $16.9 billion FUM (as at 31 December 2021).

Ausbil believes ESG integration strengthens the investment decision-making process via:

- pre-emptive identification of earnings risks from a broader ESG perspective;
- greater insight when forming a view on earnings versus consensus forecasts;
- deeper and broader assessment of management quality and effectiveness;
- identification of fundamental risks and opportunities in a company's business model that may have been overlooked or misunderstood by the market; and
- expansion of the investment universe of highly-rated ESG companies as they improve their ESG performance, transparency, and reporting.

Ausbil has a longstanding and leading ESG capability that has evolved over the past decades. This is reflected in their evolution in the area of ESG/Sustainability and the number of advocacy groups with which they collaborate, including:

- the United Nations-backed Principles for Responsible Investment (PRI) to which Ausbil is a signatory;
- the federal government which Ausbil advised in the lead up to the Modern Slavery Act;
- RIAA (Responsible Investment Association of Australasia) of which Ausbil's Head of ESG is a director of the board, and chair of the Human Rights Working Group;
- Investor Group on Climate Change (IGCC) of which Ausbil's Head of Distribution is a director;
- the steering committee of IAST APAC (Investors Against Slavery & Trafficking); and
- Climate Action 100+ as a member and collaborator.

How Ausbil integrates ESG into their investment process

At Ausbil Investment Management (Ausbil), their purpose is the integration of ESG (environmental, social and governance) factors for better-informed investment decisions, by taking an active engagement and ownership approach and seeking to increase the investible universe of highly-rated ESG companies.

Ausbil's ESG team sits within their investment team. This team undertakes proprietary research on Australian listed companies, provides ESG advice and guidance on global security holdings, and advises on the ESG impact on company models and valuations. Ausbil has integrated ESG into their investment process for all funds across their suite of products. They believe that good ESG practices improve the sustainability of earnings, and materially reduce the risks to those earnings.

Ongoing company engagement underpins Ausbil's ESG approach. Ausbil engages with companies for three key reasons. First, Ausbil believes they can have a more positive impact on companies with which they dialogue, rather than if they simply exclude them as pariahs. Second, Ausbil wants all companies to become more sustainable in their journey, and increase the universe of where they can invest. Third, Ausbil seeks to understand the full distribution of ESG behaviours and outcomes to form a full picture of both ends of the curve, between those they would never invest in, and those they believe are exemplary on an ESG basis. For an annual overview of Ausbil's engagement program visit their website at www.ausbil.com.au

In the flagship Active Sustainable strategy, all companies in the S&P ASX 200 are researched and measured against industry and company factors on a proprietary basis. The company's ESG sustainability scores and analyst conviction scores are combined and the result is reflected in a proprietary ESG ranking model (SEET). A minimum of 50% of the final portfolio by weight is derived from the top 1/3rd of the SEET rankings.

Taking an active approach to allocating capital towards companies with better ESG practices, and away from companies whose practices are poor or deteriorating, provides a powerful incentive for positive ESG behaviours in companies. Actively exercising voting rights and engaging and monitoring ESG behaviour helps fulfil Ausbil's fiduciary duties to investors and helps companies improve their environmental, social and governance practices, impact and record.

Stock example

The world is changing rapidly since the Paris Agreement for net zero by 2050 was ratified at Conference of the Parties (COP) 21 in 2015. COP 26 in 2021 saw countries affirm the 2050 target, with COP 27 recently calling for accelerated commitment action and funding to support developing countries with the transition. To achieve these targets the world has turned to green metals. Allkem (AKE), formed by Orocobre's acquisition of Galaxy, both leaders in lithium, is exposed to the growing demand for lithium on the back of new battery technology, and burgeoning demand for electric vehicles, renewable energy, and the transition to the electrification-of-things. Allkem owns the Olaroz Lithium Operation in Argentina, a downstream hydroxide plant in Japan, the Mt Cattlin project in WA, the Sal da Vida development project (Argentina) and the James Bay development project (Canada). In time, the merged company will produce more than 80ktpa of high-grade Lithium for the battery market. Lithium prices have rallied since late 2020 on a strengthening EV and battery outlook, and supply lagging demand due to a lack of capex investment in recent years. Lithium is expected to ride along the demand cycle driven by renewable energy and electrification thematic. Ausbil positioned early in Galaxy, and Orocobre, and is now a holder of the merged Allkem for the potential it offers in green metals, Ausbil sees strong demand growth over the next decade, with limited new supply coming online.

From an ESG perspective, Allkem is positioned at the heart of green metals companies that are enabling the achievement of net zero targets. Naturally, the newly merged company will face integration challenges and both companies had different ESG profiles before the merger. Arguably, Ausbil looked more favourably on Orocobre's approach which gives the new Allkem entity a better start as Orocobre acquired Galaxy and will impact positively on the overall group's ESG scores. Both companies had major ESG issues to manage given increased sustainability demands from clients in the lithium space. Orocobre has also had a history of disappointing delays. What Ausbil are seeing in the merger is the nexus of investment opportunity and the long decarbonisation thematic, from a firm that is now improving on ESG scores with positive forward momentum and positioned to benefit from the boom in green metals demand.

This case study was current as at 21 February 2022. As the market and companies are dynamic, conditions can change and Ausbil may enter or exit positions they talk about according to their views on valuation at any given point in time. This is not a stock recommendation, and Ausbil are not giving investment advice. Investors should seek advice from a licenced financial adviser.

IMPAX Asset Management

> Founded in 1998, Impax Asset Management is a specialist asset manager, focusing on investing in the opportunities arising from the transition to a more sustainable global economy.

Impax Sustainable Leaders Fund

Impax believes that:

– Capital markets will be shaped profoundly by global sustainability challenges including climate change, environmental pollution, natural resource constraints, demographic and human capital issues such as equity, diversity and inclusion.
– These trends will drive growth for well-positioned companies and create risks for those unable or unwilling to adapt.
– Fundamental analysis which incorporates long-term risks, including environmental, social and governance (ESG) factors, enhances investment decisions.

Impax aims to understand each company holistically. This requires a detailed research process, assessing companies from both a financial and ESG perspective. To invest successfully on this basis, financial and ESG research is fully integrated into the research function.

Impax has been signatory to the United Nations Principles for Responsible Investment (UN PRI) since 2008.

How Impax integrates ESG into its investment process

Impax aspires to best practices across all aspects of the management of its listed and private equity investments. ESG considerations are embedded within its rigorous ten step investment process for listed equities. Failure by a company to reach the required ESG score will prevent its investment.

Impax engages with investee companies and undertakes long term engagement to improve practice and disclosure across their governance and sustainability activities. Impax views proxy voting as a key activity in the ongoing dialogue with companies in which it invests. They are committed to ensuring the consistent exercise of voting rights associated with shares held in investment mandates where proxy voting has been delegated to them. It supports the UK Stewardship Code and complies with its guidelines regarding proxy voting and engagement. Impax publicly discloses a summary of their proxy voting activity on a quarterly basis.

Stock example

The Impax Sustainable Leaders strategy invests in companies which have >20% of their underlying revenue generated by sales of products or services in environmental markets. An example of one of the companies within the fund is Trimble, a US manufacturer of global positioning systems, sensors and communications equipment. Its scalable server-based solutions enhance agricultural productivity and lower costs. The company has a growing portion of sales from subscription services at a high margin and the company's products are being introduced to new crops and new jurisdictions, as well as new sectors such as water.

Incorporating key data such as location, weather, amount of water available to plants, soil characteristics, and crop yields, results in more efficient and optimal application of water, seeds, and fertilisers. This helps not only to eliminate over-planting or over-spraying but enhances plant productivity, plant resilience and helps to minimise risk of agricultural runoff through precise and appropriate application of product. The environmental benefit can be measured. In 2021, it enabled its clients to avoid 7.3 million tonnes of CO_2 through more precise application of fertilisers.

MACQUARIE

> Macquarie is a global investment manager with a large presence in Australia with around **A$795.6bn (as at 30 September 2022)** in assets under management globally.

Macquarie Global Listed Real Estate Fund

Macquarie believes that considering environmental, social and governance (ESG) factors within their investment decision-making processes, provides greater insight into areas of potential risk and opportunity that could impact the long-term value, performance (risk and/or return) and reputation of investments made on behalf of clients. The ESG and Responsible Investment philosophy centres on the core belief that there are links between an organisation's environmental and social impacts, the quality of its corporate governance, and its long-term business success.

Whenever Macquarie invests, it considers the specific company or asset, the industry sector in which it lies, and the market or economy in which it operates. ESG analysis adds insights at each of these three levels. At the highest level, Macquarie is a 'whole of universe' investor so it has a stake in the sustainable operation of the global economy and the societies it serves, in the integrity and transparency of markets, and in good governance and business conduct.

Macquarie has been a PRI signatory since April 2007.

How Macquarie integrates ESG into its investment process

All the smart money continues to embrace an ESG orientated world – capturing capital and putting that to work for the greater good of the world and society. Their investment philosophy is 'Quality outperforms through a real estate cycle'. Embedded in this philosophy is their three-step, bottom up investment process, where Quality is the first step and importantly ESG is a central focus, built up using many different bespoke inputs to derive an individual score.

Macquarie incorporates this because they believe that listed real estate companies, supported by a sustainable and well-governed business model and high-quality assets, will outperform over the long term. They also believe that these considerations support and work hand in hand to contribute to performance over the long term. Critically, these considerations for ESG need to be supported by a platform of strong business fundamentals which the overarching process captures holistically.

Stock example

Investing to make space for greatness – sustainable properties

Macquarie sees value in investing and developing high quality industrial properties in strategic locations, close to large urban populations and in major gateway cities globally, where demand is strong for E-commerce.

Goodman Group (Goodman) owns, develops and manages industrial and commercial real estate, delivering an integrated customer service offering to their customers.

Goodman has a sustainability vision aligned with its purpose of making space for greatness. It believes this approach leads to positive economic, environmental and social outcomes for its business, stakeholders and the world more broadly. Goodman's 2030 Sustainability Strategy is structured around three pillars – property, people and culture.[17]

17 **Source:** Goodman Group, **Goodman Sustainable webpage**.

PENDAL

> Pendal is a global investment management business offering investors a range of Australian and international investment choices. Pendal's proven and experienced investment managers have helped create $104.5 billion in funds under management (as at 30 September 2022), making Pendal Group Limited one of Australia's largest and most enduring pure investment managers.

Pendal Sustainable Australian Fixed Income Fund
Pendal Multi-Asset Target Return Fund

Where any ESG considerations may impact the financial performance of an investment, those factors are taken into account as part of Pendal's active investment processes (in the same way as other potential risk factors). Pendal believes attention to ESG can improve the quality and consistency of long-term wealth creation through enhanced management of risk and identification of growth opportunities. They not only see it as part of their fiduciary duty but a means to actively consider factors often under-appreciated by the market with the aim of maximising performance.

Pendal has been actively factoring in ESG considerations into its investment process since 1984 and believes this to be a natural extension of its active approach to investment management. Over this time, Pendal has seen first-hand that ESG issues have the potential to affect value, for example by creating new investment opportunities in renewable energy or through findings of poor conduct having a material impact upon the financial sector.

Pendal:

– is a signatory of the UN PRI since 2007 (Pendal became a signatory while it was part of the BT Financial Group. Since 2016, we have been a signatory under the Pendal name)
– is a member of the Responsible Investment Association of Australasia (RIAA) since 2000, and
– is an active supporter of the objectives of the UN Sustainable Development Goals through our investments and stewardship practices.

How Pendal integrates ESG into its investment process

Pendal's underlying belief is that incorporating sustainability considerations improve the quality and robustness of the securities in their portfolio. The result is higher and more stable returns for the portfolio, and one which they believe will outperform core bond benchmarks over time.

ESG considerations are fully integrated into their investment process. Pendal combines the specialist skills of internal research and MSCI to identify their investable universe of sustainably screened and ranked issuers. Pendal then applies a negative ethical screen to remove harmful sectors such as tobacco, weapons and thermal coal.

From there they apply Pendal's unique fixed income investment process. The outcome is a core bond portfolio that only invests in issuers that do not engage in activities that negatively impacts the environment or society. The fund also has an active tilt to Impact Bonds, where the proceeds are used to finance projects that will have a direct positive impact on the environment and society.

Fixed income example

Impact investing to improve housing affordability

Recognising the need to address the growing issues of housing affordability, the Australian Government established the National Housing Finance and Investment Corporation (NHFIC) in 2018. Its mission is to improve housing affordability by increasing supply, providing loans to support housing activities by the government and through improving community housing.

It is this last area that is particularly important in the affordable housing landscape. Community Housing Providers (CHPs) provide long-term housing for those on low incomes and groups with special housing needs. There are roughly 370 CHPs in Australia with providers in all states and territories, with the majority located in New South Wales.

In order to maintain their operations or construct new facilities, providers need access to funding. Unfortunately, this may require frequent refinancing at higher interest rates. This is where the NHFIC can assist. Through its bond aggregation program it's able to issue bonds to investors in the Australian marketplace at competitive rates and with long-term maturities. It can then pass through these benefits in the form of financing to CHPs. In March 2019, the NHFIC issued its first bond as part of this program, which raised $315 million in capital.

Pendal is a big supporter of the issue. Its ESG-aligned fixed interest funds participated in the deal as it served a dual purpose for the portfolios. It built on the tilt towards active ESG investments in green, social and sustainable bonds, as well as offering an attractive return to risk ratio.

PIMCO

> PIMCO is one of the world's premier fixed income investment managers, established in 1971 with US$1.69 trillion assets under management as of 30 September 2022 of which US$451* billion are socially responsible and ESG assets.

PIMCO ESG Global Bond Fund

PIMCO recognises that ESG factors are increasingly essential inputs when evaluating global economies, markets, industries and business models. Material ESG factors are important considerations when evaluating long-term investment opportunities and risks for all asset classes in both public and private markets. All securities in the PIMCO ESG Global Bond Fund will be selected according to PIMCO's internal screening process designed to incorporate ESG factors. PIMCO will seek to invest in companies or issuers that it believes have strong ESG practices and the screen applied by PIMCO may exclude companies or issuers on the basis of the industry in which they participate. Furthermore, PIMCO may actively engage with companies and issuers in order to seek to improve their ESG practices in the future.

How PIMCO integrates ESG into its investment process

PIMCO defines ESG integration as the consistent consideration of material ESG factors in the investment research process. Material ESG factors may include but are not limited to: climate change risks, social inequality, shifting consumer preferences, regulatory risks, talent management or misconduct at an issuer, among others. PIMCO believes incorporating relevant ESG factors should be part of a robust investment process. PIMCO recognises that ESG factors are increasingly essential inputs when evaluating global economies, markets, industries and business models. Material ESG factors are important considerations when evaluating long-term investment opportunities and risks for all asset classes, public and private markets. Their commitment to ESG integration was one of the main drivers that led PIMCO to become a signatory to the UN Principles of Responsible Investment (PRI) in September 2011.

Integrating ESG factors into the evaluation process does not mean that ESG information is the sole consideration for an investment decision; instead, PIMCO's portfolio managers and analyst teams evaluate a variety of financial and non-financial factors, which can include ESG considerations, to make investment decisions. By increasing the information assessed by the portfolio management team, they believe that they are able to generate a more holistic view of an investment, which they believe can generate opportunities and help drive returns for their clients.

Fixed income example

Engaging EQT corporation on methane emissions reduction and tracking

EQT corporation is the largest natural gas producer in the Appalachian Basin. The company is actively working on methane emissions tracking, data quality and reductions. EQT committed to The Oil & Gas Methane Partnership (OGMP) 2.0 in 2021, which we view as positive. PIMCO believes it's well positioned relative to pending the U.S Environmental Protection Agency rules regarding methane emissions.

PIMCO engaged with the company on the robustness of measurement-based methane reduction targets and disclosure. It also encouraged them to use direct measurements for methane emissions reporting and target setting and to adopt an absolute emissions target in addition to their intensity-based target alone. Its engagement also covered its view and best practices on sustainability-linked bonds using methane tracking and targets as a potential key performance indicator (KPI) for the coupon trigger mechanism.

In early 2022, EQT became the largest producer of responsibly sourced natural gas (RSG) certified under EO100™ a distinction set by Equitable Origin. While there is still some debate regarding the RSG certification process and its dependability, this effort by EQT indicates the company is committed to direct measurement and transparency of their methane emissions, which it considers to be a premier approach.

The example above is presented for illustrative purposes only, as a general example of PIMCO's ESG research and engagement capability and is not intended to represent any specific portfolio's performance or how a portfolio will be invested or allocated at any particular time. PIMCO's ESG process may yield different results than other investment managers' and a company's ESG rankings and factors may change over time. All data is of 31 December 2021, unless otherwise stated.

* The figure includes 1) Third party ESG AUM with (i) specified ESG-linked objectives ("ESG" portfolios); or (ii) a focus on a sustainability-related theme ("thematic portfolios"); 2) Third party Socially Responsible AUM (negative screened portfolios), which consists of PIMCO-sponsored funds and separate accounts with more than one client-driven values-based exclusion ("socially responsible portfolios"); and 3) Allianz ESG and Socially Responsible AUM.

Vanguard®

- With over AUD $11 trillion in assets under management globally as of 30 November 2022, including over AUD $3 trillion in ETFs, Vanguard is one of the world's largest global investment management companies. In Australia, Vanguard has been serving financial advisers, retail clients and institutional investors for over 25 years.

Core to Vanguard's mission to give investors the best chance for investment success is their duty to maximise long-term investment returns for their funds' investors. And they believe that material ESG (environmental, social, and governance) risks can affect this long-term value creation in the companies in which their funds invest.

Vanguard Ethically Conscious International Shares Index Fund

Vanguard Ethically Conscious International Shares Index Fund tracks the FTSE Developed ex Australia Choice Index (with net dividends reinvested). This index combines exclusionary screens with broad exposure to the global share market holding around 1,600 securities.

The fund allows clients to invest in companies that avoid certain ESG risks, without having to compromise on performance potential and portfolio composition to do so.

Key benefits

- Transparent ethical screens that remove fossil fuels, nuclear power, alcohol, tobacco, gambling, weapons, adult entertainment and severe controversies
- Powerful combination of ethically screened companies as well as diversified exposure to the global share market
- Access to Vanguard's consistent, transparent methodology and proven experience managing ESG funds for over 20 years
- global stewardship team dedicated to creating long-term shareholder value through advocacy, company engagement, and proxy voting on important ESG issues
- Investment strategy designed to minimise fund turnover and, in turn, minimise transaction costs and tax implications
- Low fees and execution costs

How Vanguard integrates ESG into its investment process

Vanguard believes that material ESG risks, if left unchecked, can undermine long-term value in the companies in which their funds invest.

Over time, well-governed companies, including those with sound practices to mitigate material ESG risks, should outperform those that are poorly governed.

As a result, Vanguard integrates ESG considerations into their investment processes and product design in three ways:

1. Engage – they engage with the portfolio companies in their index funds through their Investment Stewardship Program
2. Allocate – they allocate capital to sustainable returns in their active funds
3. Avoid – they develop products that allow investors to avoid certain ESG risks.

Stock example

Vanguard develops products that allow investors to avoid certain ESG risks

Vanguard’s Ethically Conscious international shares portfolio employs screens across three product-related categories and one conduct-related category. The strategy aims to minimise exposure to select industries or sectors such as fossil fuels, vice products and weapons, making it ideal for investors who want to avoid exposure to these sectors or avoid certain ESG risks.

It also uses a controversies screen which seeks to exclude companies that have controversies that violate the principles of the U.N. Global Compact. The fund screens out approximately 20% of the universe, meaning the products are well diversified, low-cost, and offer a similar return to the market, enabling them to be used as portfolio building blocks when constructing an ESG portfolio.

Some examples of the companies screened out are Exxon Mobil for fossil fuels, Philip Morris for tobacco, LVMH for alcohol, and Johnson and Johnson for controversies related to the U.N. Global Compact.

The Ethically Conscious international shares portfolio has a carbon intensity of nearly 50% less than the parent non-screened index (57.37* tonnes vs 153.55* tonnes of CO2e per US$1 million revenue) due to their non-renewable energy screen, which removes companies that own reserves in coal, oil or gas, coal production and companies that generate revenue from nuclear power production. This allows an investor to reduce exposure to high carbon emitting companies, thereby avoiding certain ESG risks.

*as at 30 September 2022

Actions speak louder than words

AMP Foundation

The AMP Foundation is one of Australia's largest corporate foundations, helping disadvantaged Australians build their financial security.

Since 1992, the AMP Foundation has invested more than $108 million into the community to help organisations and individuals bring about positive change. It also helps AMP employees and financial advisers to give back to the community through pro bono work, mentoring, volunteering, fundraising and payroll giving.

Since 2010, the AMP Foundation has provided funding to the **AMP Cancer Council Pro Bono Program** – enabling advisers in the AMP network to provide free financial advice to families affected by cancer.

Through its partnership with Good Shepherd, AMP clients facing financial hardship can access a number of supports including financial counselling, and domestic violence support.

The AMP Foundation also runs **AMP's Tomorrow Fund** – an annual $1 million grants program for Australians making a difference in our community. To date, this program has provided $8 million in grants to more than 300 **Tomorrow Makers**. These are Australians working in fields as diverse as the environment, education, art, health, science and social enterprise. Learn more about AMP's Tomorrow Makers here.

The AMP Foundation was an early adopter of impact investing and has pledged that 10% of its corpus will be in investments that provide a financial return while also achieving a demonstrable social or environmental impact. It currently invests in impact investments that are addressing a number of social and environmental issues – from increasing the number and quality of disability housing, to restoring children in out-of-home care to their parents, to improving the health of the Murray Darling river.

Learn more about the AMP Foundation.

35

Get in touch

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