Responsible Investment
2021

First Sentier Investors

Contents

CEO message

Welcome to our Responsible Investment (RI) Report 2021, which captures First Sentier Investors' progress on key environmental, social and governance (ESG) issues inside and outside our business.

The report is set against a backdrop of several important events on the world stage. The first COVID-19 vaccines were rolled out, offering some respite to the pandemic. The world came together in Glasgow for the UN Climate Change Conference (COP26), ending with some positive commitments, but considerable work still to be done if we are to avoid the worst impacts of climate change. Phase one of the UN Biodiversity Conference (COP15), postponed from October 2020, took place virtually, resulting in over 100 countries adopting the Kunming Declaration. Across the world regulation continued to drive change, shining a spotlight on greenwashing. So while the year brought many challenges, we also witnessed positive changes in the ESG landscape.

As an active, responsible investor, we know that the decisions we make when allocating capital have real-world implications. We take our role as stewards of our clients' capital seriously, and all of our investment teams are committed to assessing the risks and opportunities associated with ESG issues. This report provides a snapshot of how we think about responsible investment, and how we approach a wide range of issues across our portfolios.

I hope you enjoy this report and we welcome any questions or feedback you may have.

Mark Steinberg
Chief Executive Officer

02 Our strategy and key priorities

Our approach to RI: A snapshot

CO_2

42%
reduction in weighted average **Carbon Intensity** for listed equities portfolio in 5 years[1]

22 companies across 4 sectors have engaged with **Investors Against Slavery and Trafficking** (APAC)

2030
latest year by which we will reduce emissions of the First Sentier Investors' business to **net zero**

Investment management teams in **Australia** will comprise at least
40%
women by 2033

Portfolio carbon footprint

Listed equities:
58% lower than benchmark

Multi-assets:
67% lower than benchmark

13%
increase in number of women hired for **investment teams** since 2020

562
votes cast by Multi-Asset Solutions against directors with **insufficient women on their board**

Weighted average carbon intensity

Stewart Investors' equities portfolio:
66% lower than benchmark

FSSA's equities portfolio:
72% lower than benchmark

186
companies engaged with on **modern slavery**

29
companies targeted by **Stewart Investors** Sustainable Funds Group Conflict Minerals Collaborative Engagement

2023
latest year by which we expect companies to have factory fitted **plastic microfiber filters** in new washing machines

5
Igneo Infrastructure Partners' Minimum Standards for measuring ESG performance, applied to all Igneo portfolio companies

1. 31 Dec 2017 – 31 Dec 2021

All data is sourced from First Sentier Investors, as at 31 December 2021

Our strategy and key priorities

First Sentier Investors places responsible investment at the heart of what we do. We are entrusted with our clients' money, and we invest it with today and tomorrow in mind. Every investment team has the autonomy to develop their own approach to ESG issues, but the common thread is a focus on considering how investment decisions will impact clients, communities and the environment.

Our strategic approach to RI continues to focus on enhancing the quality and relevance of our investment capabilities, embedding a culture of stewardship across the organisation and engaging all of our employees in our RI work. This report outlines the progress we made in 2021 towards achieving our strategy across four focus areas:

- Climate change
- Diversity
- Human rights and modern slavery
- Nature and biodiversity

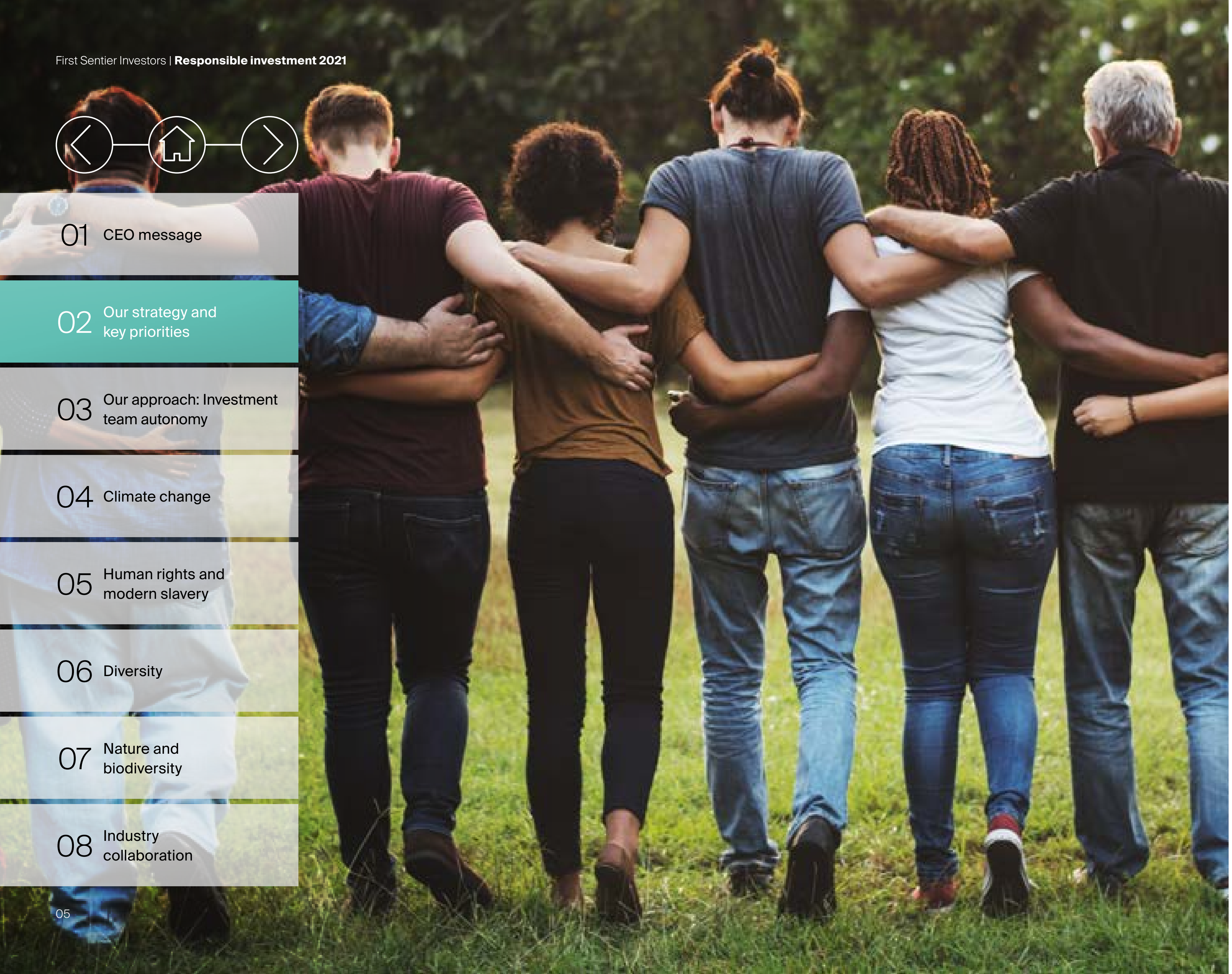
Climate change continues to be a strong focus, and we have now finalised our 'Net Zero 2050' commitment. While individual investment teams had already been charting their own paths to net zero greenhouse gas emissions, we recognise the need to set a realistic, deliverable, firm-wide target. We have now completed this process, using detailed modelling and analysis to ensure it is a robust approach to decarbonising all of our portfolios by 2050 or sooner.

Once again, we worked to address modern slavery risks in both our own supply chain and with the companies we invest in. In 2020, First Sentier Investors convened an industry initiative called Investors Against Slavery and Trafficking (IAST) APAC. This year, members of the coalition began engaging with companies on the issue.

This was also the first full year that our investment teams implemented the Modern Slavery Toolkit, launched in 2020, and incorporated the principles into their investment processes. This allows us to better report on progress and continue refining our approach.

In terms of diversity, First Sentier Investors was proud to become a signatory to the Financial Services Council Women in Investment Management Charter, which is designed to increase the gender balance within our industry. We set a target to have women comprise at least 40% of our investment management staff in Australia by 2033. We also participated in a number of other initiatives, including #100 Black Interns, an initiative to support Black interns in investment roles, and the Girls are Investors (GAIN) Empowerment Investment Internship programme.

We continue to be active participants in initiatives such as the Australian chapter of the 30% Club and 40:40 Vision. In addition, 2021 also saw an increase in the amount of engagement with companies in emerging markets on diversity.



During 2021, biodiversity became a more prominent issue for investors. As we rapidly lose natural habitats and species, the risks to business, communities and the planet are growing. Reducing nature-related risk is critical to addressing climate change and is a growing and urgent priority in its own right, as seen by the move towards a new reporting standard by the Taskforce on Nature-related Financial Disclosures. In 2021, we became a signatory to the Finance for Biodiversity Pledge, to help guide our approach to this important topic and keep us accountable.

We were part of a number of joint initiatives throughout the course of the year. A notable one was the launch of the First Sentier MUFG Sustainable Investment Institute – an exciting milestone and evidence of the commitment we have made to be a leader in this area, by providing high quality ESG research to support investors globally. We also delivered a comprehensive programme of learning and development activities to all members of the firm on the focus areas outlined above, amongst others.

Overall, 2021 represented a consolidation of many of the initiatives put in train in recent years, to ensure that First Sentier Investors continues to aspire to be a leader in RI. We seek to lead by example in our own firm, engage with the companies we invest in, and implement best practice in our investment processes. This holistic approach is key to driving positive change and protecting the AU$251 billion[1] of client capital that we invest on behalf of clients across equities, fixed income, unlisted infrastructure and multi-asset solutions. Our 14th annual Responsible Investment Report provides a transparent view of our strategy, its progress and the results of this commitment.

1. As at 31 Dec 2021

03 Our approach: Investment team autonomy

Our approach: Investment team autonomy

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

Australian Emerging Companies

The team seeks to generate strong long-term performance within a framework of high ESG awareness. They invest in companies with a strong or improving track record of ESG practices within their respective sectors. Their ESG analysis for each of the companies under research and investee companies underscores their understanding of the financial and reputational impact ESG has on businesses.

Australian Equities, Growth

The Australian Equities, Growth team's long-term investment horizon and their focus on quality, growth companies, makes sustainable business models and practices a requirement. This is inherently well suited to strong ESG outcomes. They believe that ownership and engagement for change is more effective and higher value-adding for their clients than negative screens. By maintaining an open mind, they retain the ability to engage on all stocks – with the aim of participating in collaborative discussions with management and the board that influences continuous improvement over time. Identified risk factors are used to assist in developing the quantitative and qualitative assumptions of our analysts in their assessment of industries and stocks. The team's ESG analysis and proprietary ESG rating system can and does impact potential portfolio weights.

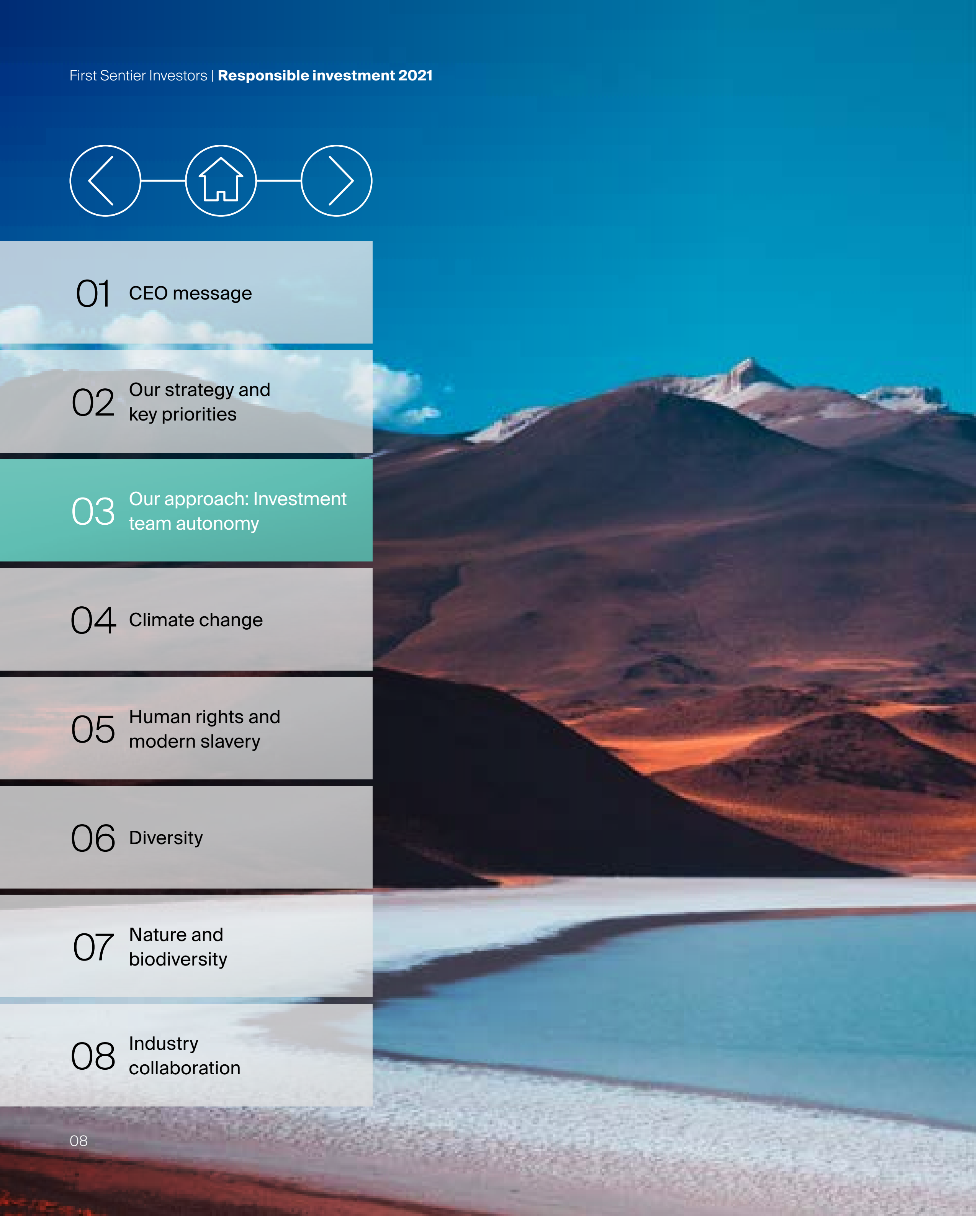
The team seeks to generate strong long-term performance within a framework of high ESG awareness

Australian Equity Income

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

Australian Small and Mid-Cap Companies

ESG considerations influence all of the team's investment decisions, given that sustainability is one of the six key criteria used in its evaluation of companies. ESG issues are frequently raised with senior management and board members during the team's extensive engagement with companies. These discussions make an important contribution towards the team's investment view. Where ESG factors are determined to have a material impact on profitability, they are quantified and can influence other factors, most directly in the valuation and financials of the company. These considerations ultimately influence the active positioning of stocks in the portfolio.



Fixed Income

ESG issues can have a significant bearing on default risk. Historically, poor corporate and regulatory governance have been recognised contributors in most corporate failures. Consequently, ESG risks are identified as part of Fixed Income's bottom-up credit research process to help manage default risks in bond portfolios. The Fixed Income team's ESG assessment has an important bearing on proprietary internal credit ratings that are assigned to every credit they review, in turn influencing portfolio construction decisions. The ESG assessment is also a critical factor in determining whether or not portfolios participate in a new bond issue. As well as this bottom-up research, ESG factors are considered as part of its position sizing discipline.

FSSA Investment Managers

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

Global Listed Infrastructure

ESG issues are fundamental to infrastructure companies, given they have significant service obligations and moral accountability to the communities in which they operate. ESG-related criteria have always been fully incorporated into the Global Listed Infrastructure team's investment process, and account for 25% of the quality score assigned to each stock that the team researches and analyses. Company engagement, to encourage ESG best practice for the benefit of investors, is a key part of the team's investment approach.

Global Property Securities

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

Multi Asset Solutions

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

Realindex Investments

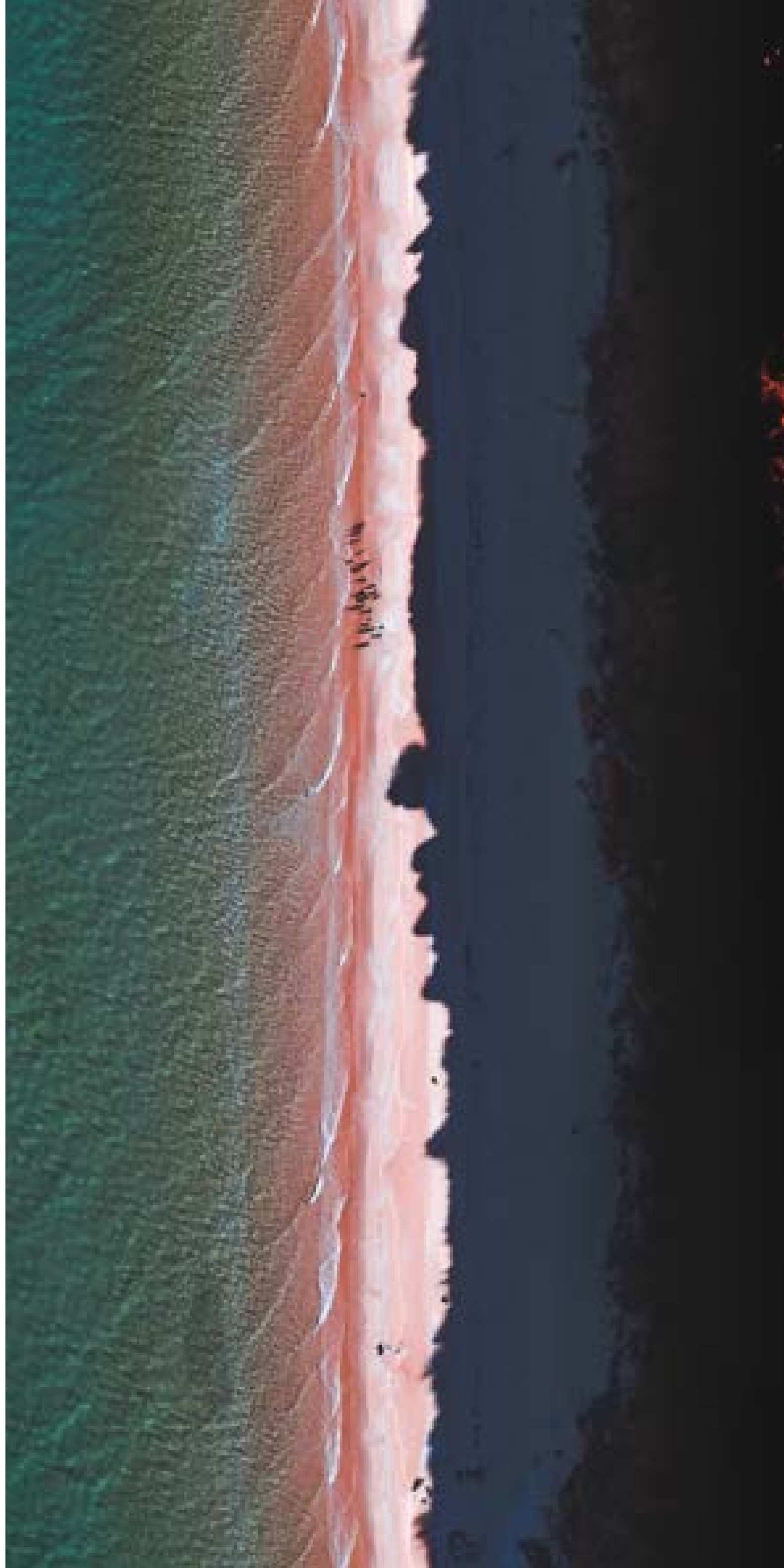
Responsible investment and stewardship principles are important to its approach to investment management and an area of ongoing research. The team's approach to ESG integration can be grouped into 3 key areas: 1) encourage companies to effectively manage the ESG risks and opportunities facing their businesses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

Stewart Investors Sustainable Funds Group

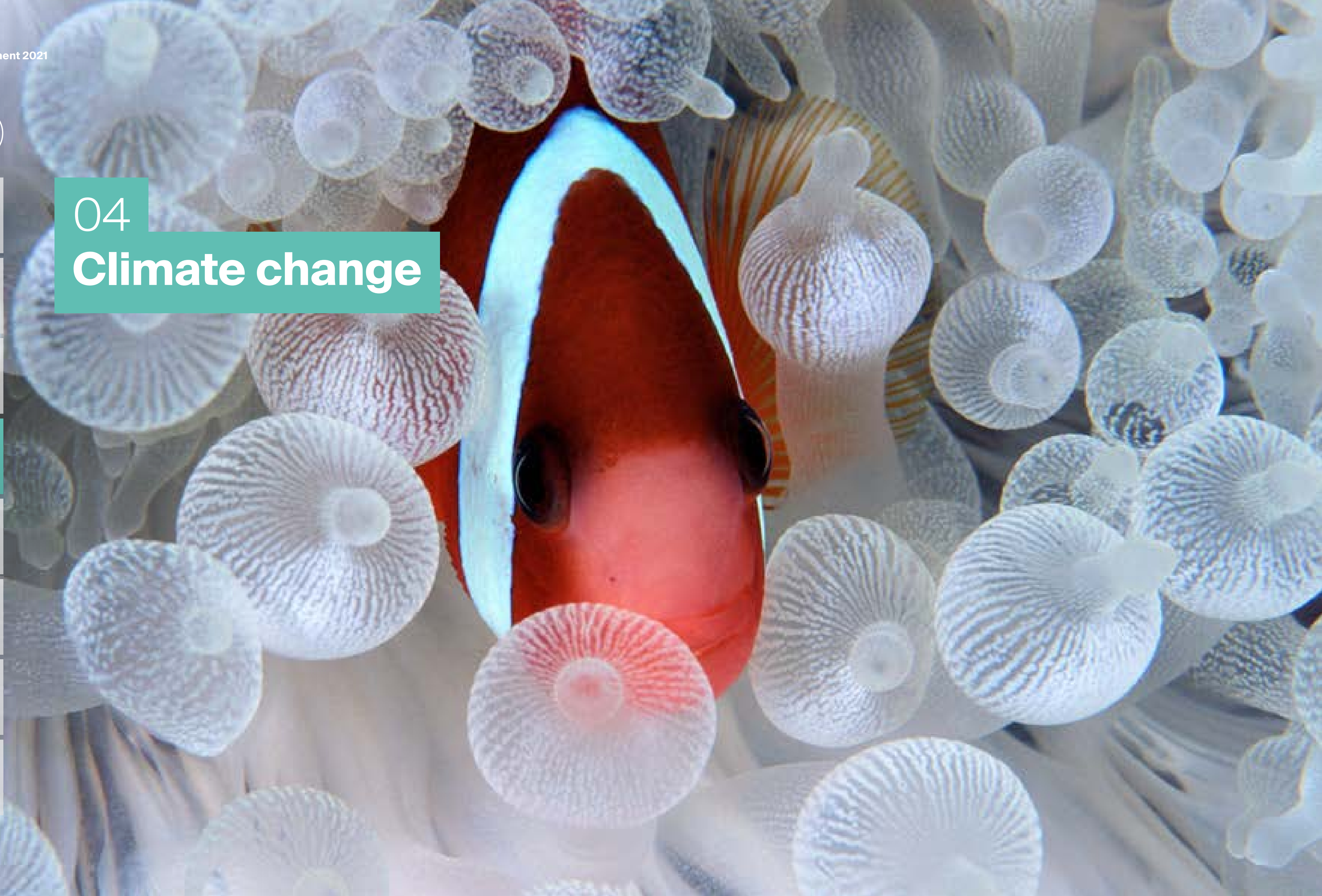
Stewart Investors' first strategy was launched in 1988 and its first dedicated sustainability strategy was launched in 2005. The Sustainable Funds Group manages long-only equity portfolios investing in Asia (including and excluding Japan), Global Emerging Markets, Europe (including and excluding the UK), the Indian Subcontinent and Worldwide. The Sustainable Funds Group aims to generate strong long-term risk-adjusted returns by investing in high quality companies that are well-positioned to contribute to and benefit from sustainable development. A focus on sustainability is a natural extension of having a long-term investment horizon. It is integral to how the team thinks about risk and return, and is embedded in the investment process. The team seeks to improve sustainable outcomes by investing in companies contributing to positive solutions, avoiding businesses linked to harmful activities, and engaging and voting for change.

Igneo Infrastructure Partners

Igneo Infrastructure Partners' strategy is to build a portfolio of mature, operating infrastructure assets that can deliver stable returns over the long term for their investors. They have long recognised that managing ESG risks and opportunities is key to protecting and enhancing value. Investment decisions, the asset management approach, and strategic analyses are therefore all examined in the context of ensuring long-term sustainability, and ESG issues are considered at every stage of the investment process. The team has the distinct advantage of being able to engage directly with its portfolio of companies via board representation and workshops with management, giving it the opportunity to set ESG targets, develop initiatives and help drive cultural change.



04 Climate change



Climate change

Why is it important to us?

In August 2021, United Nations (UN) Secretary-General António Guterres called climate change a "code red for humanity." Launching the UN's Intergovernmental Panel on Climate Change (IPCC) latest report, he warned the world that "the alarm bells are deafening, and the evidence is irrefutable".[2]

Just a few months later, the world's leaders gathered in Glasgow for COP26, the biggest and possibly most important climate change conference to date. Nations took a range of decisions in the collective effort to limit global temperature rise to 1.5 degrees.

While there were no perfect outcomes, the UN said that "after six years of strenuous negotiations, pending items that prevented the full implementation of the Paris Agreement on carbon markets and transparency have finally been approved."[3]

Against this background, it's fair to say that 2021 was an important year for climate change action.

What is First Sentier Investors doing?

Over the course of 2021, our investment teams and broader business built on the extensive climate-related work already undertaken to assess our portfolios' current alignment to net zero. We mapped out the steps that would need to be taken to make and achieve a commitment to reduce greenhouse gas emissions across our portfolios in line with a target of net zero emissions by 2050 (or sooner).

At the firm level, we built a flexible framework that allows investment teams to make their own commitments for transitioning to net zero. This approach enables the teams to maintain their autonomy while ensuring integrity and accountability in a firm wide net zero commitment. It is based on the guidance provided in the IIGCC Net Zero Investment Framework Implementation Guide.

Investment teams across the firm have developed a range of targets that they have committed to pursuing. These include short term targets for 2023 to 2025 as well as medium term targets for 2030. These targets have been developed with a view to contributing to the 50% global reduction in CO2 required to reach a net zero target by 2050. Performance against these targets will be monitored by our Global Investment Committee.

This work substantiates our firm-wide net zero commitment announced in early 2022.

During 2021 we invested more in climate-related data and tools from our third party research providers. Through a newly developed climate scenario analysis tool, investment teams now have the capability to assess the expected emissions reduction pathways of equity portfolios against the various International Energy Agency's World Energy Outlook scenarios.

2. United Nations – https://news.un.org/en/story/2021/08/1097362
3. United Nations – https://unfccc.int/news/cop26-reaches-consensus-on-key-actions-to-address-climate-change

In addition to the extensive work undertaken by teams to assess net zero alignment of portfolios and set targets, other progress on climate change include:

- **FSSA** has engaged several companies on climate change. Their desire is to see portfolio companies make genuine emissions reductions over the coming decade. Whilst encouraging the adoption of long-term targets (e.g. Net Zero 2050), the team's focus is primarily on carefully setting realistic short-term and mid-term plans that result in immediate action and progress, not procrastination.

- **Global Listed Infrastructure** has continued its engagements with various companies, as part of the Climate Action 100+ initiative. Engagements with other companies have focused on topics such as executive compensation linked to climate change, renewable power purchase agreements for airports, electric charging stations for toll roads and short- to medium-term climate strategies.

- In 2021 **Realindex** also joined Climate Action 100+ as a supporting investor on a major airline, which is committed to net zero by 2050, with a focus on operational efficiencies, software efficiency, carbon offsetting and sustainable aviation fuel.

- Throughout 2021 the **Global Property Securities** team created a database for Scope 1, 2 and 3 emissions in their portfolio, which will be audited in 2022.

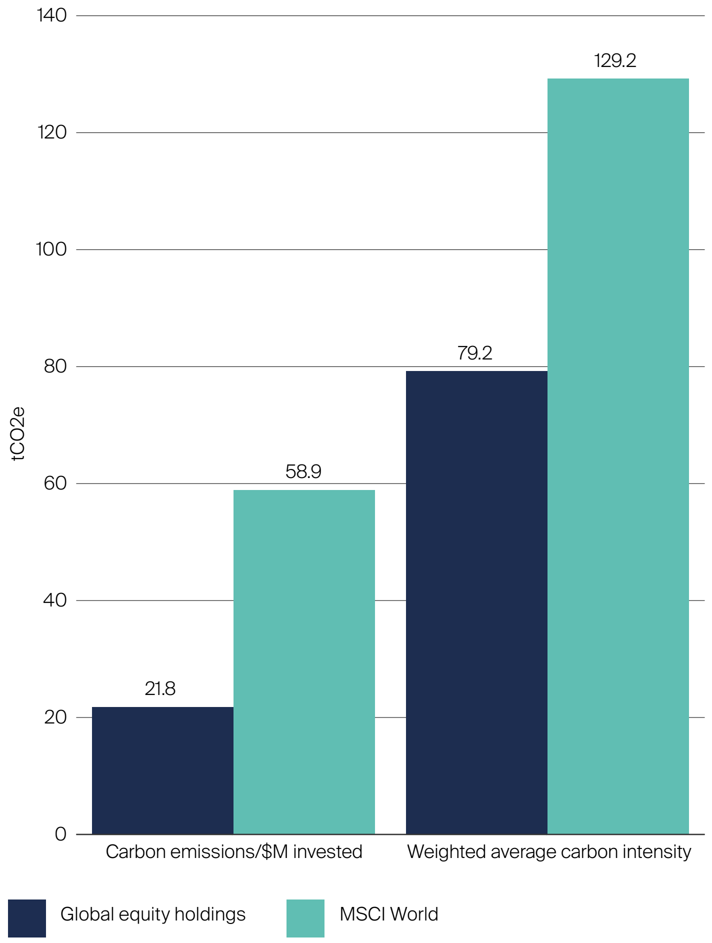
- The **Fixed Income** team engaged with multiple companies across the utilities, materials, chemicals and retail sectors in order to understand how these companies aim to progress against their net zero and sustainability performance targets, established in recent sustainable finance transactions.

- **Stewart Investors Sustainable Funds Group** only invest in high-quality companies contributing to a more sustainable future such as those helping to reduce ecological footprints, or advance human development, or both, wherever possible. The team's views and commitment to climate change is available on the website. The Sustainable Funds Group maps company contributions to Project Drawdown's climate change solutions. Project Drawdown is a non-profit organisation, founded in 2014, which has mapped, measured and modelled over 80 different solutions to global warming, with the ultimate goal of reaching drawdown – i.e. the point in the future when emissions stop increasing and start to steadily decrease. The Sustainable Funds Group provides company mappings on their website, via their interactive Portfolio Explorer tool that tracks how each company is contributing towards climate solutions.

- The **Australian Small and Mid Cap Companies** team has engaged with every company in its portfolios on their strategy and progress towards becoming net zero. Some smaller companies have lagged the larger end of the market when it comes to putting net zero strategies in place. However, the team understands the challenges that some smaller companies face and are encouraged by the significant progress that has been made in the past 12 months.

- As a result of the **Multi-Asset Solutions** team's ethical screening process in the Real Return Fund outlined in last year's RI Report, the exposures within their portfolios now generate significantly lower carbon emissions than the traditional market cap-weighted benchmarks. This is a key component of the team's commitment to net zero emissions alignment of the portfolio.

Figure 1. Multi-Asset Solutions' global equities holdings emissions exposure compared to the MSCI World Index



First Sentier Investors Multi-Asset Solutions' global equities holdings emissions exposure compared to the MSCI World Index. Holdings are as at 31 December 2021.

Igneo Infrastructure Partners' net zero commitment

Feature:

In 2021, Igneo infrastructure Partners set a target to achieve net zero portfolio GHG emissions across all funds by 2050 or sooner.

They aim to achieve this through:

- All portfolio companies setting targets and a plan to reduce emissions as far as technologically and financially viable.
- Portfolio companies offsetting any residual emissions that are not financially or technologically viable to eliminate.
- Increasing investment over time in businesses that help meet the goal of global net-zero emissions by 2050, such as renewable energy and other assets that contribute to climate change mitigation or adaptation.

Climate Action 1, 2, 3!

The team devised an action plan for all portfolio companies to be implemented by 2023. This will achieve progress towards the team's net zero target, alongside strengthening governance and the assessment and management of climate-related risks and opportunities within the portfolio.

1

Devise a road map for achieving alignment with a net zero emissions pathway, including short- and medium-term emissions reduction targets.

2

Complete a detailed climate change impact assessment and integrate conclusions into business plans.

3

Put in place key measures to achieve strong governance of cilmate-related risks and opportunities.

Action 1 will involve all companies setting a long-term goal consistent with the portfolio achieving net zero emissions by 2050. Companies will develop short- and medium-term emissions reductions targets in line with this aim and a plan for how targets will be achieved. Meanwhile, Igneo Infrastructure Partners will continue to report portfolio emissions on an annual basis.

Action 2 will involve all companies conducting a detailed assessment of physical and transition risks facing their assets, including the use of scenario analysis where appropriate, and integrating conclusions into their business plans. Companies will start by building on the portfolio-wide assessment of risks and opportunities that the Igneo team have already conducted.

Action 3 will involve all companies putting in place key measures to strengthen governance of climate-related risks and opportunities (where these are not in place already). The Igneo team will use the Transition Pathways Initiative's 'Management Quality' framework as a guide for this. It will include, for example, Board-level responsibility for climate impacts, climate risk management processes, aligning incentive schemes and verification and disclosure of emissions data.

Figure 2. Reporting on progress

This table shows the following key carbon metrics for all investment teams, as recommended by the Taskforce for Climate-Related Financial Disclosures (TCFD):

	Listed Equities	Fixed Income	Multi-Asset Solutions	Direct Infrastructure
Coverage (AUM)	95%	75%	Listed Equities: **88%** Sovereign debt: **93%**	100%
Weighted average carbon intensity (Scope 1+2/$million sales)	205.3	Corporate fixed income: **246.5** Sovereign debt: **461.6**	Listed equity: **80.3** Sovereign debt: **213.1**	746
Difference weighted average carbon intensity vs benchmark (aggregated)	-35.1%	Corporate fixed income: **0.3%** Sovereign debt: **-1.2%**	Listed equity: **-38%**	n/a
Average fossil fuel companies	9.2	5.9	33.7	2.8
Carbon footprint (tCO2e/$m invested)	110.4	n/a	19.8	294
Difference carbon footprint vs benchmark (aggregated)	-58.3%	n/a	-66.9%	n/a
Total Carbon Emissions (tCO2e, Scope 1+2)	11,421,559	n/a	2,822	3,182,660
Scope 1 (tCO2e)	9,238,534	n/a	1,634	3,028,781
Scope 2 (tCO2e)	2,153,541	n/a	1,188	153,879
Scope 3 (tCO2e)	34,352,338	n/a	15,293	n/a

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

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

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

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

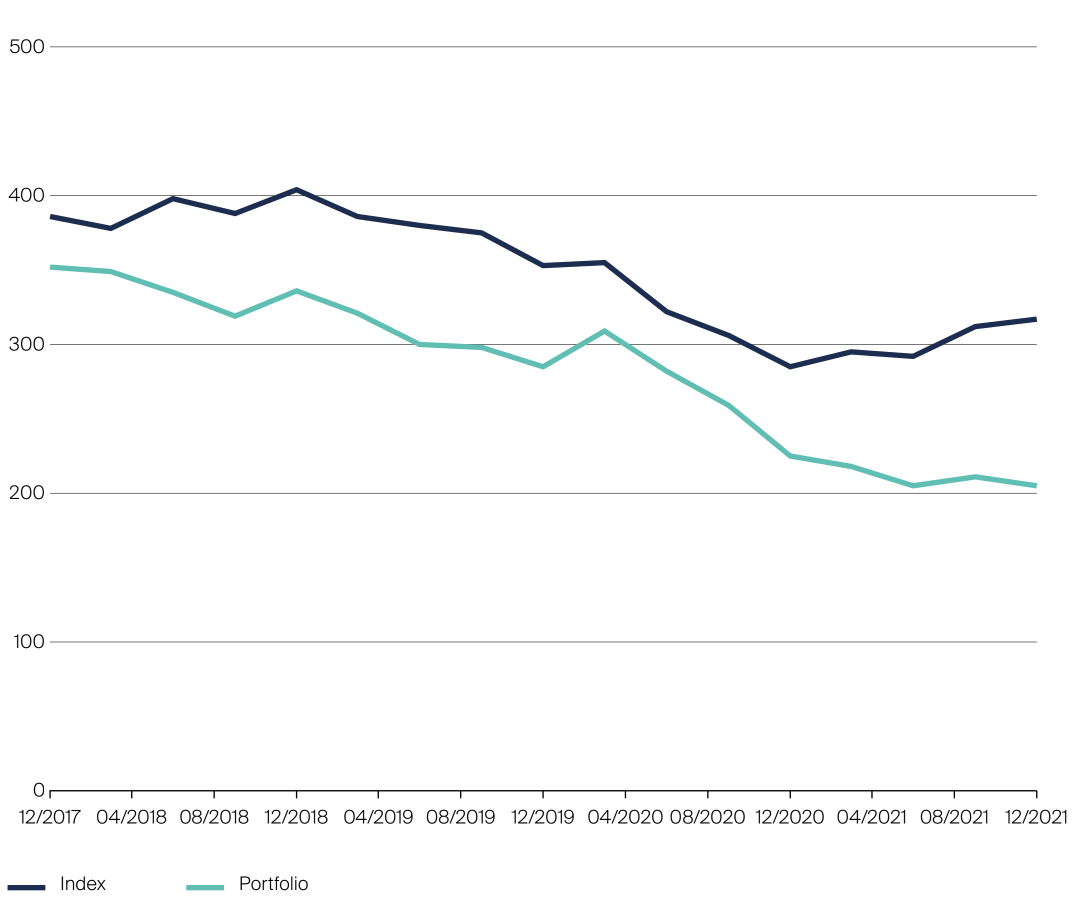
Carbon footprint reports for each listed equity investment team, and an explanation of how each measure is calculated, on First Sentier Investors' website, in "Carbon footprint" under "Responsible Investment" tab.

* tCO2e refers to tonnes of carbon dioxide equivalent

The chart below shows the change over five years in Weighted Average Carbon Intensity for all our Listed Equities portfolios vs the benchmark (aggregated).

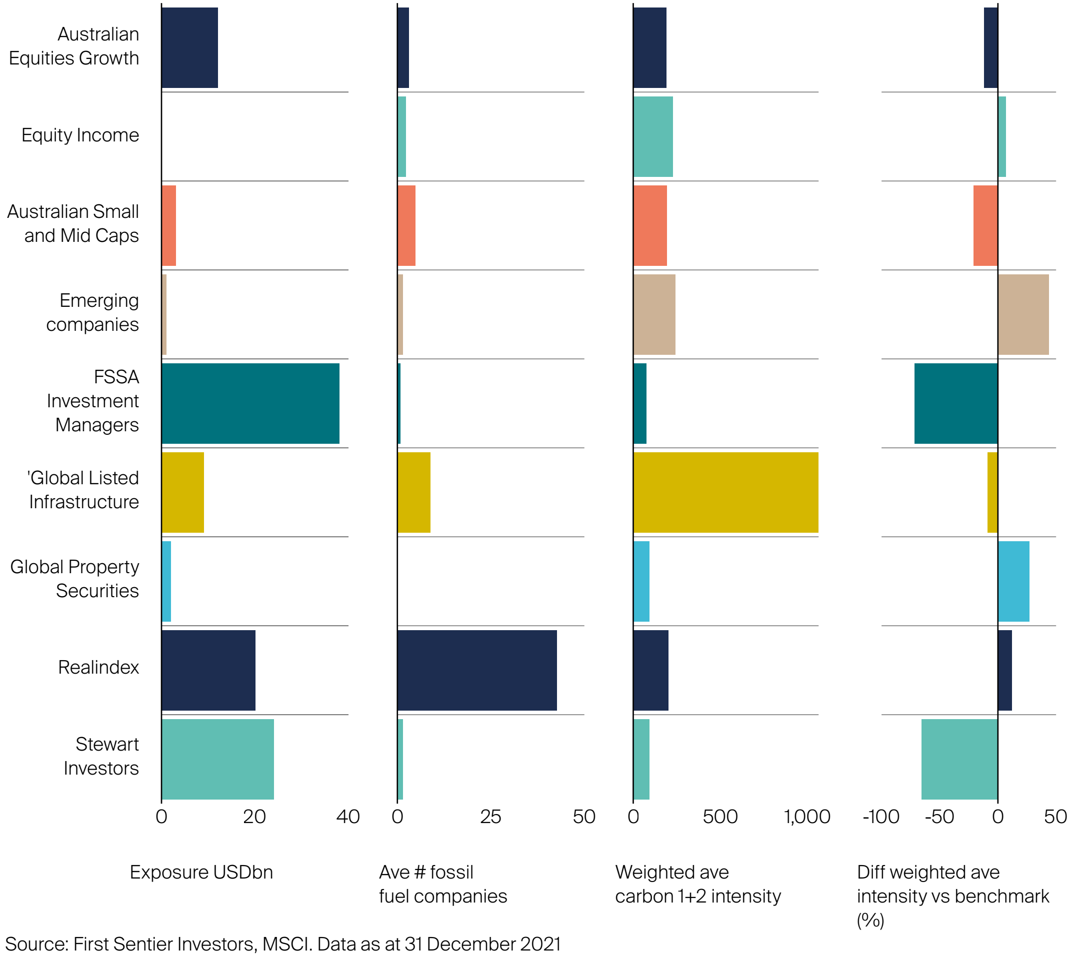
Figure 3. Listed Equities Wtd. Avg. Carbon Intensity

tCO2e/US$m sales



Source: First Sentier Investors, MSCI. Data as at 31 December 2021

Figure 4. Listed equity teams emissions profile



Source: First Sentier Investors, MSCI. Data as at 31 December 2021

Challenges

The key challenge we faced in 2021 was how to create a robust net zero target which covered the highest possible proportion of assets under management. The IIGCC net zero implementation framework was central to this work, however we found it challenging to implement across certain asset classes where there is currently no guidance.

We ultimately chose to take a conservative approach, and look forward to expanding our commitment over time and contributing to the conversation on this important topic.

Data reliability and availability continue to be a challenge, however company disclosure is improving with the introduction of mandatory climate disclosure across many of the jurisdictions we invest in. As discussed above, we were able to invest in additional data sources this year. We worked closely with our data provider to ensure that all relevant parts of the business were well informed on how to use the data and what its limitations are.

Another challenge is the rapidly evolving regulatory environment across all markets. This applies to a number of ESG issues, but particularly in relation to climate change, where we have seen consultation papers, regulation and guidance issued and/or enter into force in Australia, Hong Kong, Singapore, Europe and the UK, in addition to updated TCFD implementation guidance.

Future plans

In response to regulation coming into force in 2022 and beyond, we developed a comprehensive Climate Risk Management Plan, which we will be implementing in 2022. This will be followed by updated TCFD-aligned disclosure, which incorporates the recommendations in the revised implementation guidance.

We will regularly report on our progress against our net zero commitment at firm and investment team levels, and finalise and release additional detail underpinning the commitment as part of our Climate Action Plan.

We will regularly report on our progress against our net zero commitment at firm and investment team levels.

05 Human rights and modern slavery

Human rights and modern slavery

Why is it important to us?
Modern slavery is a distressing and pervasive part of global supply chains and one of the most pressing human rights issues that investors can take action on.

There are multiple factors that drive modern slavery and allow it to flourish, including economic dislocation, endemic poverty and ongoing conflict and displacement. The COVID-19 pandemic has exacerbated these conditions, increasing the vulnerability of workers to modern slavery across the globe.

What is First Sentier Investors doing?
Our approach focuses on human rights risks within the supply chain, in particular modern slavery and other forms of labour exploitation. It is where we see the greatest opportunity to have an impact within the current regulatory environment, and it can also be the starting point for identifying other human rights issues.

The Modern Slavery Toolkit, developed by First Sentier Investors' Modern Slavery Investor Working Group in 2020, continues to be the key framework used by investment teams to identify and address modern slavery risks within their investment portfolios. At the beginning of 2021 the working group met to review the qualitative and quantitative metrics collected on the effectiveness of our approach in 2020, adjust our strategy for 2021 accordingly, and identify areas for collaboration amongst investment teams.

During the year we launched Modern Slavery portfolio analytics, which pull together a range of data sources to help teams visualise modern slavery risks at a portfolio level, and then drill down to different risks.

Individual company engagements increased significantly throughout 2021, however we also engaged at industry level, through our involvement in Investors Against Slavery and Trafficking (IAST) APAC, an investor initiative to promote effective action by companies to find, fix and prevent modern slavery, labour exploitation and human trafficking across the value chain. IAST APAC is convened and chaired by First Sentier Investors.

In 2021, IAST APAC launched a collaborative engagement with 22 companies from four sectors – Consumer Discretionary, Consumer Staples, Technology, and Healthcare across Asia. Members of the Australian Equities Growth, FSSA and Realindex teams are directly involved in these company level engagements.

Some examples of focus areas and progress on modern slavery include:

- The **Australian Small and Mid-Cap Companies** team continues to focus on companies that source raw materials and finished goods from developing countries in their supply chain. The team has engaged with all relevant companies on working conditions, employee welfare and accommodation, especially during the Covid pandemic. The team has sought assurance that suppliers' standards remain high in the absence of on-the-ground audits due to travel restrictions. The team has also engaged with companies on their shipping activities, which is an industry notorious for modern slavery risk.

- Modern slavery was a key focus for the **Realindex** team across all company engagements in 2021. Given their large number of holdings, the team is currently focused on multi-year engagements with their largest holdings.

- The **Multi-Asset Solutions** team has partnered with Sustainalytics for its modern slavery thematic engagement service. Sustainalytics is one year into a three-year engagement program with 14 companies across the apparel and construction sectors, with the goal of on-boarding a further 8 companies in 2022.

- The **Global Listed Infrastructure** team has ranked its portfolio companies based on an assessment of vulnerability to modern slavery and is engaging with new companies regularly, prioritising those deemed most at risk.

- **Igneo Infrastructure Partners** engaged with all portfolio companies again in 2021, with a focus on supply chain risks for its renewable energy projects.

- Given the lack of supply chain transparency in Asia, **FSSA** focused on engaging with companies at risk of modern slavery in their own operations and tier 1 of their supply chain.

- The **Australian Equities Growth** team has been in discussions with Woolworths around its modern slavery policy since 2018, with the aim of encouraging more industry engagement with multiple union signatory groups.

In our own operations and supply chain, we established a Global Procurement and Supplier Governance team during 2021. This team has responsibility for working with those within our business who engage suppliers to identify and manage these risks (we are currently targeting those suppliers which have a higher risk of modern slavery occurring in their operations and supply chains). We further embedded the issue into our supplier governance and risk assessment process by finalising our Modern Slavery Policy and referencing our commitment to combat modern slavery in our Risk Appetite Statement.

Stewart Investors Sustainable Funds Group Conflict Minerals Collaborative Engagement

Feature:

During the past year, the Sustainable Funds Group at Stewart Investors launched another collaborative engagement effort, supported by 160 investors with collective assets under management of US$6.59 trillion, focused on conflict minerals within the semiconductor supply chain.

Tantalum, tin, tungsten, gold and cobalt (referred to collectively as conflict minerals) are vital materials and building blocks of the semiconductor industry. The poor traceability of these minerals alongside complex supply chains, including smelting and refining, can obscure their provenance and lead to the inadvertent financing of armed conflict and human rights abuses.

Stewart Investors are long-term investors who believe that sound labour practices and good environmental management go hand in glove with shareholder returns. As regulators and consumers pay increasing attention to the challenges of mineral sourcing within the semiconductor supply chain, the Stewart Investors team believe there is an opportunity for companies to take a lead in the development of conflict-mineral-free supply chains. They wrote to 29 companies involved in the manufacture of semiconductors encouraging them to:

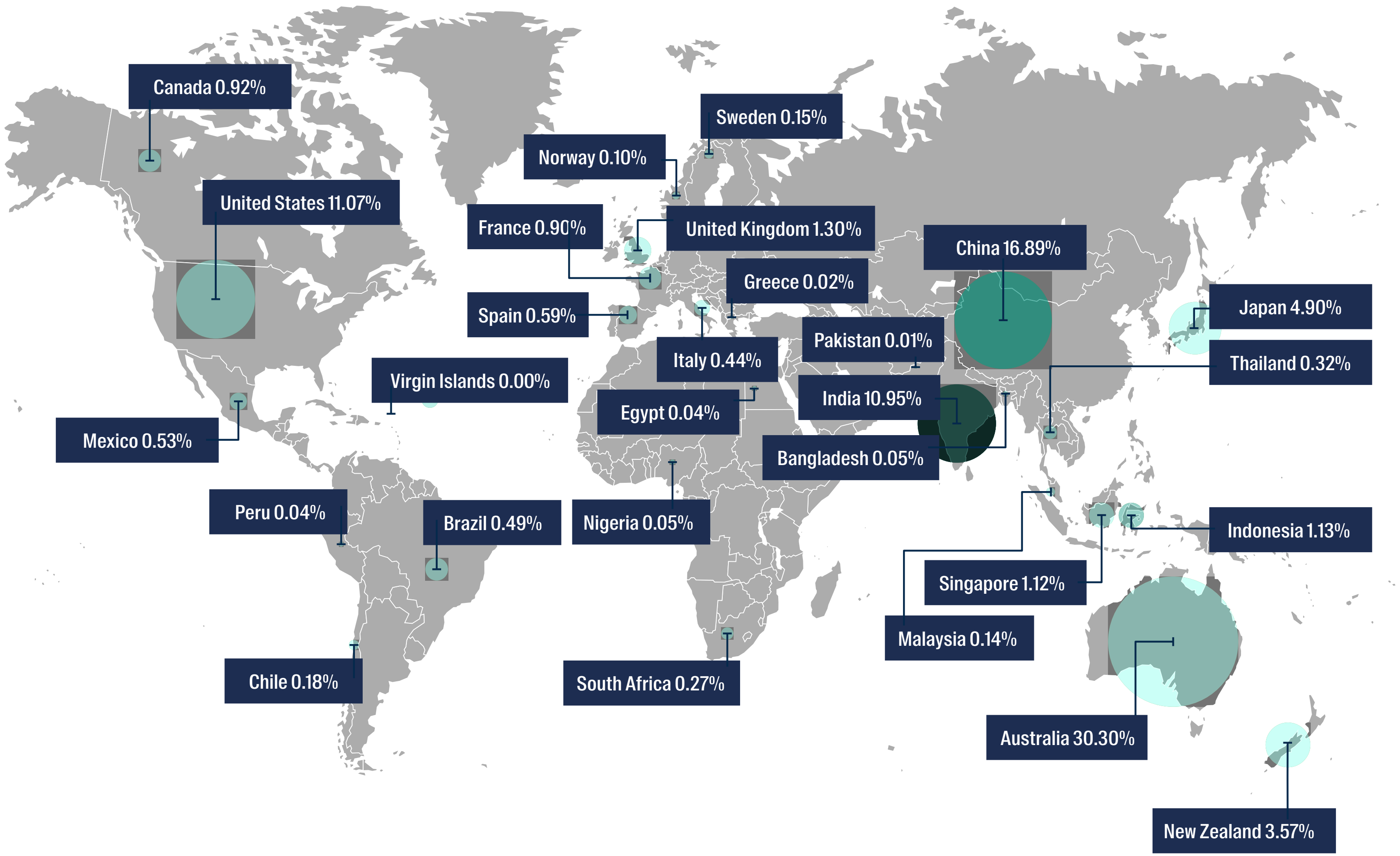
- Develop and invest in technological solutions to improve traceability,
- Increase transparency and reporting on minerals from mine to product,
- Encourage and participate in industry wide collaboration to improve industry practices,
- Impose and enforce harsher sanctions on non-compliance, and
- Reduce demand for new materials by improving recycling initiatives.

Stewart Investors are in the early stages of this engagement and intend to provide further updates on progress and company responses in due course.

Reporting on progress

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

Figure 5. Our global modern slavery risk exposure



Spotlight on the food and beverage sector

In last year's RI Report, we featured the modern slavery risk exposure for the information communications and technology (ICT) companies across our portfolios. The food and beverage sector is another sector with products at risk of modern slavery, as identified by the Global Slavery Index 2018.

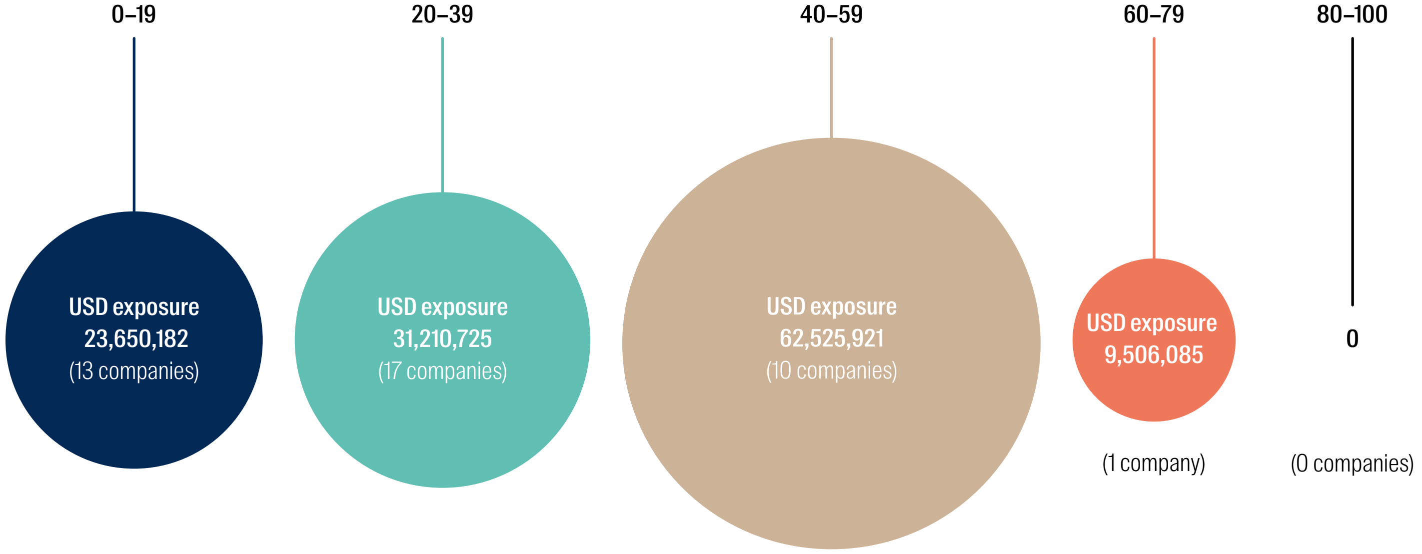
In 2020, KnowTheChain released its Food and Beverage Benchmark, which assessed 43 of the largest food and beverages companies globally on their efforts to address forced labour risks within their supply chains. Figure 4 shows their performance measured by KnowTheChain.

The size of the bubble indicates the size of our investments in companies across listed equites and fixed income in each of the score bands. With an average score of 28/100, there is room for significant improvement among these companies. A small number of companies score higher than 50/100, demonstrating some leading practices in two key areas of abuse: purchasing practices and worker voice, which the sector, on average, scores lowest on. First Sentier Investors had greater exposure to companies with an above average score (>40), but there is still significant scope for improvement, particularly as no companies score in the top band (80-100). For this reason, this sector has been an engagement focus for a number of teams, including the Fixed Income team (featured on the following page).

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

For more information, see the interactive KTC chart on our website.

Figure 6. Overall KTC score



Source: First Sentier Investors, KnowTheChain. Data as at 31 December 2021.

Fixed Income engagement with the retail sector

Feature:

As part of their annual modern slavery risk assessment, our Fixed Income and Credit team identified high modern slavery risk in companies in the retail sector (particularly supermarkets), together with technology hardware, service companies and the oil sector. Of the 26 companies the team engaged with on modern slavery this year, three were in the global supermarket sector. The disclosure from these companies was above average and the progress they have made was promising, based both on the KnowTheChain assessment and the team's own research and engagement with the companies.

However, the team remains concerned about the modern slavery risk within the suppliers of these companies, particularly below tier 1 of the supply chain, and where there are offshore suppliers, as audits continue to be affected by the pandemic.

The team will continue to follow up with these companies in 2022 and if it observes a lack of effective action on this issue, it will adjust ESG risk scores and ESG risk trajectories accordingly, which may lead to an adjusted view of the team's assigned internal credit rating. The team will also seek to work collaboratively with the RI team and other investment teams within First Sentier Investors that have exposure to these companies, to help drive change.

This reflects the team's preference to work with companies to continuously improve risk policies and processes, risk management systems and training, rather than exiting positions. We think this is a more effective approach for assisting victims of modern slavery.

Challenges

In jurisdictions where modern slavery legislation exists (such as the UK and Australia) we are seeing more investee companies uncover instances of modern slavery. Whilst this is not a positive development in itself, we see it as a good sign that a company is genuinely looking for the issue. It puts the company in a position to provide or enable a remedy to the victim(s) and to put preventative measures in place to avoid further incidents.

These topics are already addressed in our Modern Slavery Toolkit, however, we have identified it as an area which requires further training, as there are complexities involved in how investors can enable a remedy, and what reasonable preventative measures look like.

In developing markets where supply chains are complex and labour standards are lower, we face different issues. Raising awareness is often the first step in addressing this important topic.

Future plans

To address the challenges raised above, we intend to focus on remedies and preventative measures as part of our annual training on modern slavery risks.

We will also update our risk assessments following the release of Walk Free's updated Global Slavery Index in 2022, and look forward to participating in the review of the Australian Modern Slavery Act.

As we identify more leading practices and collect additional data and case studies to assess the effectiveness of our own approach, we will update our Modern Slavery Toolkit and guidance to ensure continuous improvement in this important area.

06 Diversity

Diversity

Why is it important to us?

Diversity matters because people matter. Everyone deserves the opportunity to be included in a broad range of work, leisure and community activities regardless of their gender, race, sexuality or any other difference. It is the right thing to do.

Moreover, greater diversity leads to better outcomes for our staff, our clients and the community. Different ways of thinking and different life experiences create more varied teams who can make better decisions.

Within our own business, we believe that having an inclusive culture, where our people are comfortable and supported to be who they are, regardless of their background, is the foundation that enables diversity to thrive across our business.

We also recognise the challenges we face in achieving better and broader diversity in our business and wider industry. Although there is not one single solution to reaching this goal, we need to hold ourselves to account, just as we hold the companies we invest in to account on this subject.

What is First Sentier Investors doing?

At First Sentier Investors, we think about diversity beyond the lens of gender, with factors such as race, socioeconomic background, sexuality and disability being of equal importance. We are committed to improving diversity within our own firm, as well as advocating for change at the company level. We also believe that diversity can only be achieved in an inclusive and equitable environment.

In 2021, we commenced a review of our global strategy for Diversity, Equity and Inclusion (DEI) which included input from many stakeholders including our board, leadership team and employees.

This strategy will focus on diversity, equity and inclusion across all regions with pillars focusing on:

- Fostering an inclusive culture
- Levelling the playing field
- Engaging our People
- Alignment with our Responsible Investment and Corporate Sustainability strategies

An important step was our inaugural Diversity Census, designed to help us better understand the composition of our global workforce and look for areas to improve. There is a snapshot of results on page 29, noting that the census was voluntary, with a 65% participation rate and the data is representative of those people who responded to each question.

We know that ongoing engagement with our people is critical to making meaningful change. To enable this dialogue, we re-launched our global DEI steering committee, created an internal microsite profiling DEI activities, and sought feedback through our engagement survey and focus groups. We also established employee communities, initially in EMEA and the US, with a focus on six DEI areas, to provide forums to raise specific initiatives and discuss the lived experience and needs of our workforce at all levels.

Industry collaboration is also important in achieving change. Some examples of programmes we are involved in include:

- A UK-based industry-wide initiative to support Black interns in investment roles (#100 Black Interns, welcoming our first cohort of two interns into the unlisted infrastructure team in mid-2021).
- Participation in the Girls are Investors (GAIN) Empowerment Investment Internship programme, taking on two interns into our Stewart Investors St Andrews Partners investment team.
- Partnering with the Financial Services Skills Commission, we contributed to the launch of an industry-wide report on the impact of menopause for women in financial services.

Increasing female representation at senior management and board levels continues to be a focus for First Sentier Investors. While it's not the only diversity factor to consider, it's an important one. We made an ambitious commitment during the year, becoming a signatory to the Financial Services Council *Women in Investment Management Charter*, which is designed to increase the gender balance within our industry. We set a target for women to comprise at least 40% of our investment management staff in Australia by 2033. While this is a significant step up from the current 26%, it was a considered decision. We know that to achieve it, two-thirds of future investment management hires will need to be women, and we will need to retain them as their careers develop. Nonetheless, we are committed to achieving the goal and have several initiatives in place to work towards it.

Some examples of investment team focus on this issue include:

- Our Australian equities investment teams continue to be active members of the 30% Club and 40:40 Vision, with members on the Investor Working Groups of both initiatives. In addition to this, our CEO Mark Steinberg is a member of the Steering Group of 40:40 Vision and **Realindex** represents the investment teams on the Investor Working Group.

- The **Multi-Asset Solutions** team, as a result of aligning its voting policy with its broader ESG objectives, voted against 562 individual directors in 2021 where there was insufficient female representation on the board of directors.

- **FSSA Investment Managers** have focused their D&I engagement efforts on companies with either too few or no females on the board. They have had success particularly in engaging with companies where the business model is geared toward women or where a high percentage of the workforce is female. FSSA also engages on board member experience, noting variability in type of experience and age. Companies in Asia, albeit slowly, are starting to recognise the importance of D&I within the organization.

- The **Australian Equities Growth** team includes gender diversity as a quantitative input in their investment process. To achieve the maximum score for board diversity, female representation must reach between 40–70% of a company's board. The team has seen diversity improve amongst the larger stocks, and is now focused on engagement with smaller stocks and laggards.

- The **Global Listed Infrastructure** team has been engaging with portfolio companies both on gender diversity and on diversity more broadly (for example background, age, industry experience). The team will question companies particularly where the board is not representative of the communities they serve.

- The **Global Property Securities** team has been particularly focused on engagement with companies based in Asia, where gender diversity is lower than in other companies in the team's portfolio.

- The **Australian Small & Mid-Cap Companies** team engages extensively with companies on board composition and diversity. While the team is one of many voices advocating for greater board diversity, the team's strong relationships it has built with companies over many years, together with an understanding of the challenges for growing businesses, allows for targeted and effective engagement. In recent times it has been pleasing to see increased female representation on Small and Mid-Cap company boards following the team's and other investors' engagement.

- **Stewart Investors Sustainable Funds Group** has continued to engage companies in the portfolio on improving diversity outcomes, particularly at the Board & management levels. Alongside this, the team has also published an article on their approach to diversity as regards engagement and proxy voting with respect to portfolio companies, as well as within the business itself, available on the website.

Reporting on progress

Every year, we publish a global scorecard that shows the gender breakdown of our staff. While there has been little change overall, the scorecard is moving in the right direction and we know that meaningful change takes time. There has been a promising uptick (13%) in female new starters within investment teams, which aligns with the change needed to meet our WIM Charter goal.

Figure 7. First Sentier Investors Gender Diversity Scorecard

	% Male	% Female	Change from last year
Total Firm	55%	45%	↑ Up 2%
ELT	67%	33%	↑ Up 4%
Senior Professionals	63%	37%	↑ Up 1%
Investment Management Professionals	74%	26%	↑ Up 1%
Client Facing Professionals	57%	43%	↑ Up 2%
Subsidiary board members	59%	41%	↑ Up 10%
New starters to the firm in the last 12 months	48%	52%	↑ Up 3%
New starters to investment teams in the last 12 months	48%	52%	↑ Up 13%

Source: First Sentier Investors as at 31 December 2021.

Challenges

As we try to improve our own diversity, and encourage the companies we invest in to do the same, this raises questions about how to overcome obstacles and achieve change.

The research by Realindex shows us that both companies and investors need to create higher expectations around diversity of all kinds, from publicly stated targets to legislated quotas.

Future plans

As with all systemic issues, collaboration is key to addressing the challenges to improving diversity. We will continue to collaborate with the Australian 30% Club, 40:40 Vision and the FSC on this topic, and will also look for additional ways to influence this issue. In 2021 a number of investment teams engaged with companies based in emerging markets, which is a good start, but an area where there is much work to be done. Within First Sentier Investors, we will be implementing our refreshed global diversity, equity and inclusion strategy.

Beyond lip service

Feature:

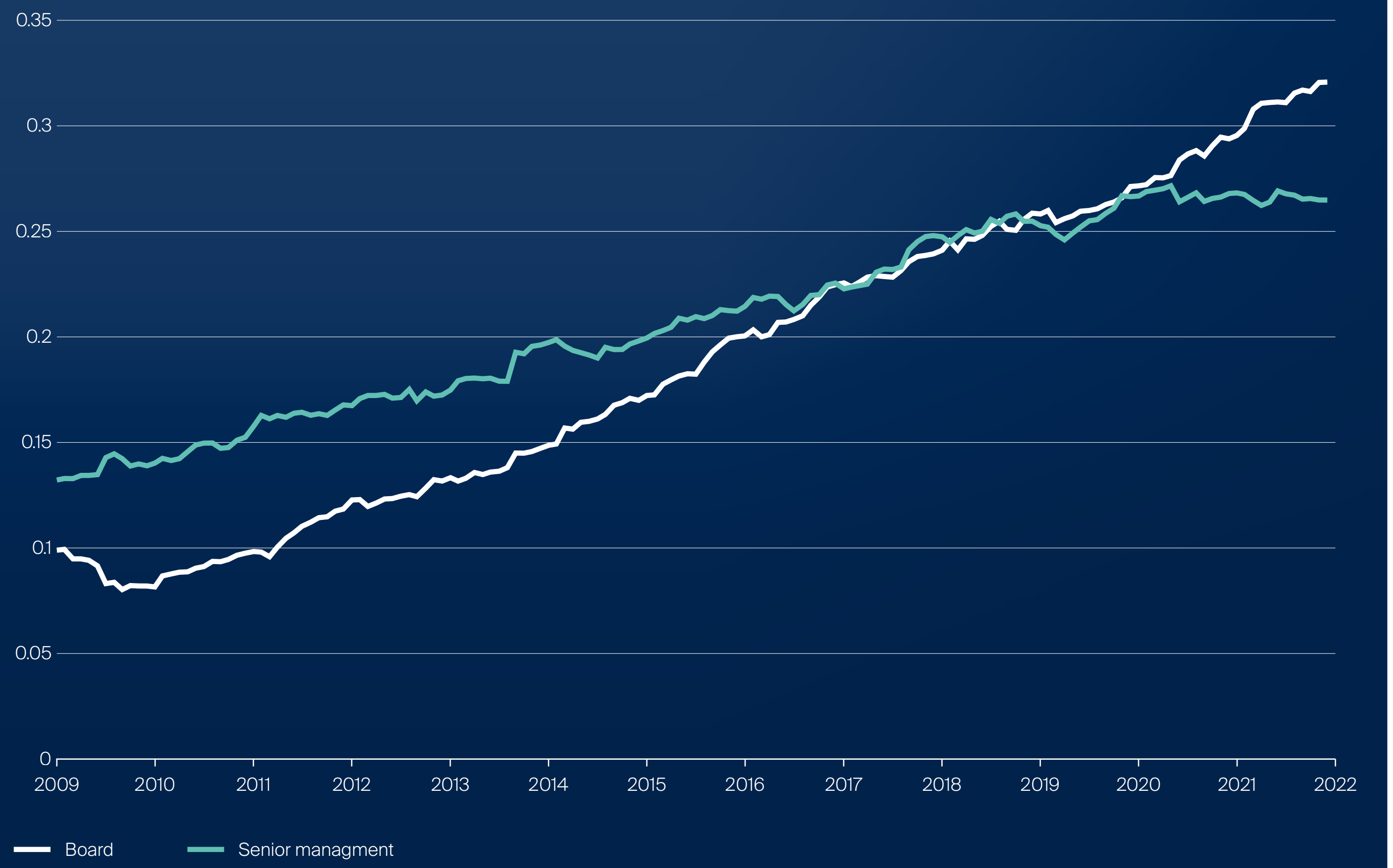
First Sentier Investors believes publicly disclosed targets can play an effective role in driving change, which is why we are signatories to initiatives including the FSC WIM Charter, 30% Club, and 40:40 Vision.

Recent research by Realindex supports this view, showing that gender diversity on boards has progressed significantly in the last decade, as most developed markets have put quotas in place. Senior management, on the other hand, attracts far less attention or regulation. It has fallen well behind in terms of progress. It suggests that what gets measured, gets done, and that pressure from regulators and investors can drive real change.

These issues are covered in more detail in Realindex's research on the topic, Beyond Lip Service, which can be found on our website.

Figure 8. Gender diversity

% positions held by women: ASX 300



Source: Realindex research 2021

92% of our people feel comfortable being who they are at work

4% No; 4% prefer not to respond

3% of people identify as LGTBQI

3% of people identify as having a disability

3% of people identify as being neurodiverse

We have **60** different ethnicities

Most common

24.8%	Australian	8%	Scottish
16.3%	British	3.7%	Irish
16%	Chinese	3.7%	English

62% of our people have experience working in an industry other than Finance

43% of our people speak 2 languages

11% of those speak 3 languages, 1% speaking 4 languages

78% speak English at home

9%	Cantonese
5%	Other
4%	Mandarin
2%	Japanese
1%	French

47% of our people have caring responsibilities

All data is sourced from First Sentier Investors as at 31 December 2021

07 Nature and biodiversity

Nature and biodiversity

Why is it important to us?

Nature and biodiversity cannot be considered in isolation from climate change. The impacts of climate change such as temperature rises, increases in extreme weather events and increasing carbon dioxide in the atmosphere are already having substantial impacts on nature. At the same time, biodiversity conservation is critical to addressing climate change, meaning that these issues are mutually dependent.

There are significant investment implications of nature loss. More than half of the world's economic output – US$44tn of economic value generation – is moderately or highly dependent on nature.[4] As the Task Force on Nature-related Financial Disclosures points out, "nature loss therefore represents significant risk to corporate and financial stability".

Nature, Biodiversity and Nature-related Risk explained

According to the Convention on Biological Diversity, biodiversity is "*the variability among living organisms from all sources*".

Nature is all the existing systems on earth - the features, forces and processes, such as the weather, the sea and mountains. As such, biodiversity is a crucial part of nature.

Nature risk is related to the loss of natural assets. It may directly impact business' or economies' operations, or negatively affect society in a way that creates market risks.

What is First Sentier Investors doing?

In 2021, First Sentier Investors signed the Finance for Biodiversity Pledge, which provides a framework for financial institutions to address nature-related risks, by applying a more systematic assessment of how nature may impact a company's performance, and how a company impacts nature.

The work of individual investment teams and our RI team continues to focus on key issues and company-specific risks. Examples include:

- **FSSA**, **Stewart Investors** and **Realindex** continued to participate in our marine microplastic pollution collaborative engagement with the laundry industry (profiled the 2020 RI Report). First Sentier Investors continues to lead this collaboration in partnership with the UK's Marine Conservation Society. In 2021 a number of focus companies made positive progress on this issue, and we were pleased to see the first commercially available products fitted with filtration technology become available in the UK, together with promising plans to introduce additional products in 2022.
- The **Australian Equities Growth** team has been engaging with food suppliers and supermarket companies, focused on ethical sourcing of food and reducing food waste.
- The **Global Listed Infrastructure** team has been engaging with water companies in the UK on biodiversity – specifically, the financial and environmental benefits of restoring the natural environments surrounding their waterways.
- **FSSA** continues to engage with portfolio companies on the responsible sourcing of palm oil and the consumption of water in manufacturing businesses. It has also begun to engage more on deforestation as it relates to food and beverage supply chains.
- **Stewart Investors Sustainable Funds Group** commissioned research on investment and sourcing through smallholder supply chains, which included an assessment of a series of nature-related issues (amongst others), including biodiversity, deforestation and land use, chemical usage and pollution and water management.
- **The Fixed Income** team engaged with a global packaging company to better understand its management of raw materials, their use of recycled materials and their ability to produce more sustainable products. The company is currently collaborating with industry peers to set standards for packaging grades.

4. Task Force on Nature-related Financial Disclosures https://tnfd.global/

Challenges

Whilst there is currently a lack of guidance and frameworks for identifying and addressing nature-related risks and opportunities, this is improving. We look forward to additional guidance from the post-2020 global biodiversity framework, the Taskforce on Nature-related Financial Disclosures, and the Science Based Targets Network, to help inform our approach.

Reporting on progress and future plans

We have much more to learn and implement on this topic as we work towards fulfilling our commitments under the Finance for Biodiversity Pledge by 2024. Below we outline some of the steps taken since signing the pledge and are intending to take moving forward. A key forum for making progress on this issue in 2022 will be through our internal Biodiversity Investor Working Group.

Commitment	Progress made to date and next steps
Collaboration and knowledge sharing	• As part of our collaborative engagement on microfibre pollution, we have facilitated a series of knowledge sharing sessions together with scientists from the Marine Conservation Society. • In 2021 the First Sentier Investors MUTB Sustainable Investment Institute commissioned a paper on microplastics. • In 2021 First Sentier Investors joined the RIAA Nature Working Group as a key forum for collaboration and knowledge sharing in Australia. • We will continue to seek out forums where we can collaborate and share knowledge, and intend to publish thought leadership on biodiversity in 2022.
Engaging with companies	Our investment teams engage on this issue both individually and as part of the collaborative initiative profiled on the previous page.
Assessing impact	We completed a firm-wide impact assessment in 2020 and intend to build on that work over the course of 2022.
Setting targets	We have set targets in discrete areas (for example, our collaborative engagement on microfiber pollution is target driven), however we are yet to set broad based targets. We anticipate that the guidance referred to above will help inform our approach.
Reporting publicly	We will continue to report on progress in our annual RI Report.

08 Industry collaboration

Industry collaboration

We support a number of industry and trade groups that are focused on developing and improving RI. While these groups do not speak for us unless we specifically sign a statement they draft, we are aligned with their broader missions.

Each year, we review the various initiatives that we have been involved with. We do this to ensure their purpose aligns with our clients' interests and that we have the capacity to make a meaningful contribution. The initiatives that we actively support and engage with are listed here:

Global Initiatives

PRI
- Signatory

Finance for Biodiversity pledge
- Signatory

Task Force on Climate-Related Financial Disclosures
- Supporter

Tobacco Free Portfolios Pledge
- Signatory

Cambridge University's Investment Leaders Group
- Founder Member
- Chair of working group

Climate Action 100+
- Supporting investor for 3 companies

Asia Pacific

Financial Services Council (FSC)
- Director of the FSC Board
- Member of the Fund Management Board Committee
- Member of the Investment Expert Group
- Member of the ESG Working Group

Investor Group on Climate Change
- Member

Responsible Investment Association Australasia
- Member of the Human Rights Working Group
- Member of the Nature Working Group

30% Club Australia
- Investor Working Group member

40:40 Vision
- Steering Group member
- Investor Working Group member

Women in Sustainable Finance
- Committee member

Investors Against Slavery & Trafficking APAC
- Chair

Japan Sustainable Investment Forum (JSIF)
- Signatory

Japan Stewardship Initiative (JSI)
- Signatory

EMEA

UK Sustainable Investment Forum
- Board Member

EUROSIF
- Chair

Institute Chartered Accounts in England and Wales (ICAEW)
- Member of the Corporate Governance Committee
- Member of Sustainability Committee

Prince's Accounting for Sustainability (A4S)
- Expert Panel Member

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

London Stock Exchange Group
- Member of Sustainable Investment Committee
- Member of ESG Advisory Committee

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