

**Australian
Ethical**



ETHICAL STEWARDSHIP POLICY

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Table of Contents

1	Purpose and Scope	3
2	Reference	4
3	Risk Management and Capacity	4
4	Roles and Responsibilities	5
5	Obligations and Accountabilities	5
	5.1 Strategic ethical stewardship plan	6
	5.2 Ad hoc or reactive ethical stewardship	6
	5.3 Process for implementing our stewardship	7
	5.4 Third party ethical stewardship	8
	5.5 Voting	8
	5.6 Tracking and reporting on ethical stewardship engagements and activities	9
	5.7 Measures of effectiveness	9
	5.8 Monitoring the evolution of investor stewardship	9
6	Exceptions	9
7	Adherence with Group Policies, Practice Notes and Procedures	10
8	Whistleblower provisions	10
9	Point of contact	10
10	Review cycle	10

1 Purpose and Scope

We acknowledge that we need systemic change across multiple industries to tackle the most difficult and important challenges of our time, such as climate change, the biodiversity crisis, human rights abuse, and industrialised animal cruelty. Allocating capital to positive companies and avoiding investing in harmful ones is critical to resolving the global challenges we face. But we recognise that on its own, our ethical allocation of investment capital is not enough to achieve the economic and social transformation we need to get to a future where people, animals and the planet prosper consistent with the aims of the Ethical Charter.

Investor stewardship is one way we can directly have real world influence. Investor stewardship, also known as active ownership, leverages the capital our members have entrusted to us to influence investee companies, the economy and society. We believe that investor stewardship can improve the quality of our investment process and is in our members' best interests.

At Australian Ethical Investment, responsibility for investor stewardship is shared between the Investment team and the Impact & Ethics team, each having different objectives and targets. See the table below. This policy sets out the governance for investor stewardship conducted by the Ethics Research & Impact team for Australian Ethical Investment Limited and all Group subsidiaries (AEI). We call this Ethical stewardship. It applies to all asset classes, investment strategies and geographies.

Investment team's Investor stewardship	Ethics Research team's Ethical Stewardship
Stewardship is focused on lowering the risks and improving the returns of individual holdings and the portfolio. It is targeted at investee companies and is typically directed at concerns that are financially material to the investee company.	Stewardship is focused on achieving real world outcomes for the benefit of investors (including the protection or strengthening of the economic, social and environmental assets on which portfolio-level returns depend) and people, animals and the planet, in line with the principles of our Ethical Charter. This includes reducing the negative and increasing the positive impacts of companies (irrespective of the financial materiality of those impacts to an individual company being engaged) and achieving systemic change at an economy or society-wide scale. It can be targeted at investee companies but its remit is much broader, including companies outside the portfolio, other investors, governments including regulators, standard-setting bodies, industry associations and other organisations.

Ethical stewardship is distinct from other types of advocacy we engage in at Australian Ethical, including people powered advocacy which seeks to achieve long-lasting, systemic change by influencing public sentiment, and social solidarity advocacy which is generally short-term action in response to cultural, political and / or social events. The customer team has ownership of these types of advocacy. There will be areas of overlap, particularly with respect to public policy. Ideally ethical stewardship and people powered advocacy work together toward the same objective leveraging their respective areas of influence.

2 Reference

This policy has been written following review of (though not purporting to necessarily comply with) the following:

- CFA’ESG disclosure standards (2021) to the extent they relate to stewardship
- PRI’s guidance on voting on shareholder resolutions ‘Making voting count’
- PRI’s high level active ownership framework 2.0
- The Croatan Institute’s IE2 initiative ‘Evaluating the Impact of Shareholder Engagement in Public Equity Investing’ (https://croataninstitute.org/wp-content/uploads/2021/05/IE2_Report.pdf)
- PRI’s paper ‘Strengthening Effective Stewardship in Australia’ (June 2023)
- RIAA’s Engage, Advocate, Collaborate: Unpacking Stewardship in Australasia in 2022
- The Stewardship Code Aotearoa New Zealand (September 2022)
- FSC Standard 23: Principles of Internal Governance and Asset Stewardship (July 2017)

This policy should be read in conjunction with:

- The Ethical Investment Policy
- The Ethical Approval of Investments Practice Note
- The Australian Ethical Group Proxy Voting Policy
- Australian Ethical Charter Practice Shareholder Resolutions
- Relevant Ethical Charter Frameworks

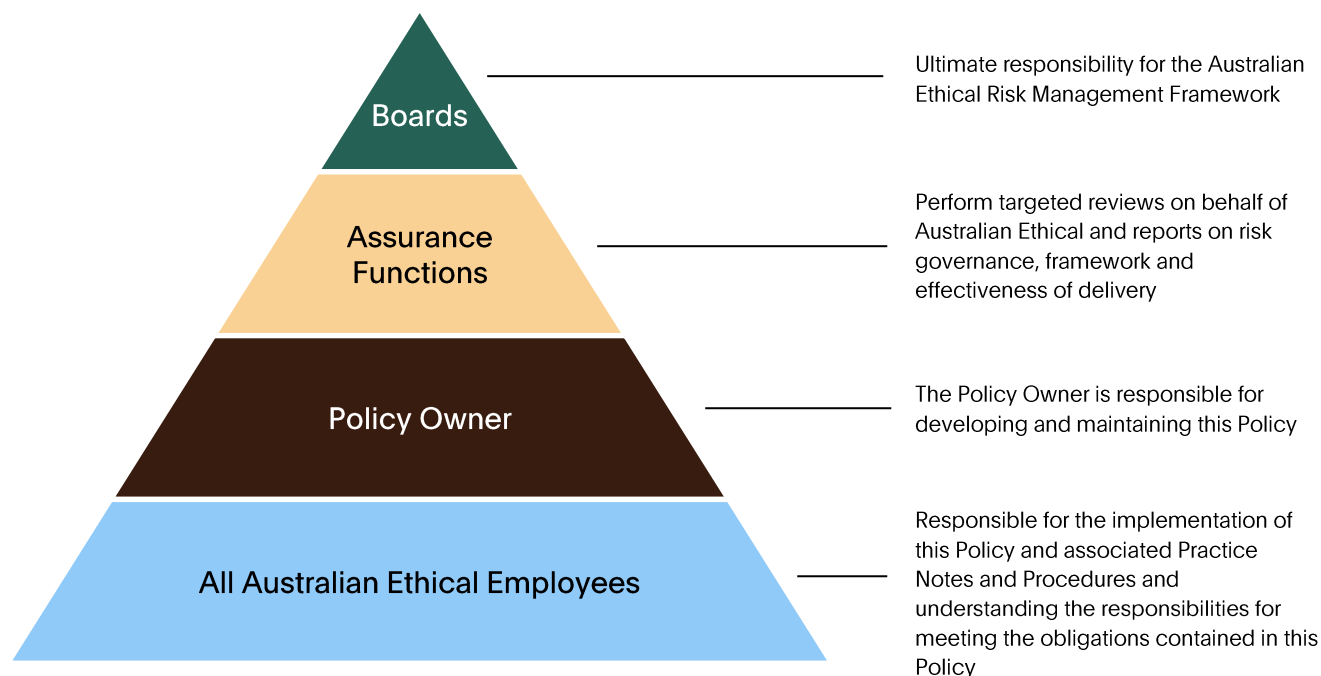
3 Risk Management and Capacity

Risk	Response	Comments
Risk Appetite Statement	Investment	This Policy relates to Australian Ethical in all capacities and is aimed at setting the approach for the outsourcing of any business activity
Board’s Appetite	Actively Manage / Avoid	
Risk Tolerance	Moderate	

Adherence to this Policy will help avoid the risk that ethical stewardship activities are of inadequate quality, misleading, deceptive or incorrect resulting in:

- loss of responsible investing market differentiation
- disengaged target audience
- no longer being perceived as a subject matter expert for ethical topics
- reputational damage
- negative sentiment from customers and public
- reduced influence

4 Roles and Responsibilities



5 Obligations and Accountabilities

We commit to pursue ethical stewardship opportunities to achieve real world outcomes for the benefit of investors (including the protection or strengthening of the economic, social and environmental assets on which returns depend) and society, in line with the principles of our Ethical Charter. This includes reducing the negative and increasing the positive impacts of our investments and influencing systemic change at an economy or society-wide scale to help address systemic challenges and move towards a future where people, animals and the planet prosper, consistent with the aims of our Ethical Charter.

To meet this commitment we will:

- Set, and review on an annual basis, a strategic ethical stewardship plan
- Implement the strategic ethical stewardship plan
- Engage in ethical stewardship activities on an ad hoc or reactive basis
- Require or encourage third parties we work with to conduct their own ethical stewardship activities
- Track ethical stewardship engagements and activities
- Seek to measure and assess the effectiveness of ethical stewardship engagements and activities
- Report on ethical stewardship engagements and activities including progress against objectives / real world outcomes
- Monitor the evolution of investor stewardship in the responsible investing community

5.1 Strategic ethical stewardship plan

An ethical stewardship plan should be developed in consultation with other relevant parts of the business including the customer team, the investment team and the Foundation. It should be approved by the Head of Impact & Ethics and reviewed on an annual basis.

The ethical stewardship plan should set out strategic priority areas of focus; the rationale for their inclusion; the key people responsible; the objectives / the real world outcomes sought to be achieved; a theory of change that sets out how we might be able to contribute to the real world outcomes; a plan for who and how we will seek to influence on the issue; and measures of effectiveness. Some of these concepts are explained in more detail in section 5.3 below.

How we will determine strategic priority areas of focus

Strategic priority areas of focus should be set having regard to the following:

We focus on issues related to the three pillars of the Ethical Charter:		
People, Animals and the Environment		
Where the issues are systemic, widespread, long term, or create an existential challenge	Or	Where we can help reduce suffering, protect the voiceless, vulnerable or irreplaceable
Where either		
We are in a position to influence e.g. as an investor; as a subject matter expert, because of our unique perspective; or because the topic is under-attended	Or	We see a need to address harm caused or contributed to by the companies in our portfolio or we see an opportunity to help enhance the positive impacts of companies in our portfolio
And that are ideally:		
<ul style="list-style-type: none"> - important to existing and prospective customers - the subject of existing media interest with space for our voice or where we can generate such interest - able to be efficiently acted on, such as where there are synergies with our ethical screening and impact measurement, where we can leverage previous work or existing relationships, where we can leverage the Foundation partnerships or where there are synergies with people powered advocacy campaigns (customer team) 		

5.2 Ad hoc or reactive ethical stewardship

We may also engage in ad hoc or reactive ethical stewardship where:

- we need to engage to confirm an investment is aligned with the Ethical Charter or to encourage alignment including as part of assessments or reassessments, or between assessments where a significant controversy is brought to our attention (the Ethical Frameworks are used to assess whether an investment is or is not aligned with the Ethical Charter and therefore guide what the key areas for engagement should be)
- we can support others' initiatives that are aligned with our position on issues relevant to the Ethical Charter
- we see any other opportunity to positively influence on issues relevant to the Ethical Charter

having regard to:

- the resources required
- Our priority areas of focus
- (regarding third party initiatives) whether the method and tone is consistent with AEI values and brand and not damaging to AEI's reputation
- the relationship we have with the targets we are seeking to influence

5.3 Process for implementing our stewardship

Real world change objectives	
For each strategic priority area of focus, and where relevant for ad hoc or reactive engagements, we identify the objectives / real world outcomes we are seeking to achieve. Objectives may be set at a level of ambition beyond what our stewardship activities can achieve on their own, provided we believe we can contribute to their achievement.	
Theory of change	
For each strategic priority area of focus, and where relevant for ad hoc or reactive engagements, we aim to develop and evolve a theory of change which sets out how we will seek to achieve, or contribute to the achievement of, the objective / real world sustainability outcome.	
Who (targets)	How (activities or actions)
<p>Our targets for ethical stewardship may include: externally managed funds, companies (irrespective of whether they are investee companies in any asset class), their employees, their boards, industry groups, other investors, research providers, government including regulators and particularly where policies impact the actions of the private sector, politicians, consumers, research providers, and bodies that develop voluntary business standards including standards of disclosure.</p> <p>Targets for ethical stewardship programs will be selected having regard to:</p> <ul style="list-style-type: none"> - what we think will be most effective at achieving or materially contributing to the identified real world sustainability objective - which targets, individually or collectively, can create systemic change or have the greatest impact - target size and capacity to implement change; - importance of issue vs burden on the target of responding - our ability to influence the target - the impact on AEI's external relationships 	<p>Proposed stewardship activities or actions may include: private or collaborative engagements; catalysing dialogues with other investors or other stakeholders; coordinating with civil society; participating in multi-stakeholder initiatives; acquiring nominal advocacy holdings (subject to the Ethical screening of investments policy); filing shareholder resolutions, voting (on shareholder resolutions, against directors, against remuneration reports); other AGM activism including asking questions at AGMs; campaigns against recalcitrant directors; nominating enlightened directors; policy engagement; engagement with standard setters and industry groups; influencing the policy engagement activities of others; open letters to companies; contributing to public discourse, FOI requests; threatening, supporting or engaging in litigation; submitting an amicus brief; developing benchmarks; participating in industry initiatives and events; warning of potential divestment, public divestment and divestment campaigns (subject to the Ethical Assessment of Investments Practice Note); contributing to or supporting research.</p> <p>Activities or actions for ethical stewardship programs will be selected having regard to:</p>

	<ul style="list-style-type: none"> - what we consider will be most effective at achieving or materially contributing to the identified real world sustainability objective - which methods, individually or in combination, will best influence the target/s - the preference for engagement before escalating to more public or punitive forms of influence (such as open letters or divesting) - AEI's values, reputation and brand - the impact on AEI's external relationships - the resources required
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5.4 Third party ethical stewardship

Where appropriate we will encourage third parties we work with to engage in and report on their own ethical stewardship activities.

External managers

We may encourage external managers that we appoint to engage in, consult on and report on ethical stewardship activities, having regard to:

- the investment structure (e.g. whether Australian Ethical invests directly in the underlying assets or holds units in a fund),
- the sectors invested and likely positive and negative impacts of the underlying assets
- whether engagement is required to confirm alignment with our Ethical Charter (informed by our Ethical Frameworks)
- the nature of the underlying assets (e.g. equity holdings in publicly listed companies or direct investments)
- our priorities for strategic ethical stewardship

5.5 Voting

Proxy voting and reporting is carried out by the Investment team in accordance with the Proxy Voting policy. The Ethics Research & Impact team:

- is responsible for:
 - deciding whether to file or support shareholder resolutions where they relate to ethical issues (in accordance with the Charter Practice Shareholder Resolutions policy), and
 - deciding how to vote on a 'say on climate' resolution,
 in both cases this should be in consultation with the relevant investment analyst and where necessary the Chief Investment Officer; and
- may make suggestions or recommendations for how the investment team ought to vote where ethical issues or ethical stewardship objectives could impact voting on other resolutions (e.g. re-election of directors or on remuneration reports).

5.6 Tracking and reporting on ethical stewardship engagements and activities

Our approach to tracking ethical stewardship activities is documented in our stewardship reporting process, including definitions, metrics and responsibilities.

Given the volume of ethical stewardship engagements and activities, and the resources involved in keeping a record, we may not track all activities. We wish to prioritise achievement of real world objectives or outcomes and avoid a scenario where activity metrics, inputs or processes are prioritised at the expense of these, or where the burden of tracking and reporting deters us from engaging in 'light touch' ethical stewardship activities (such as supporting an investor statement).

5.7 Measures of effectiveness

It is difficult to measure the outcomes of ethical stewardship. It is hard to assess how much real world change has occurred and to attribute change to a particular activity. Notwithstanding these challenges, it is critical we do measure and report on effectiveness in some way. We will continue to investigate options for measuring effectiveness and in annual reporting we will include qualitative and quantitative information on our stewardship.

In developing measures of effectiveness, we will:

- preference measures that relate to real world outcomes over activity metrics
- supplement long term measures with interim measures to ensure accountability over longer term initiatives
- look for data points that approximate the impact of our stewardship activities such as the additionality of our efforts (outcomes beyond what would have occurred had we not pursued the activity)
- not prioritise a good story over real action, for example we will not preference engagements or activities that have clear measures of effectiveness, over more important engagements or activities that may be more difficult to measure
- seek to be transparent, including when others have contributed to our successes or we cannot necessarily attribute real world outcomes to our engagements or activities, and where our engagements or activities have failed to produce an outcome

5.8 Monitoring the evolution of investor stewardship

The Ethical Stewardship Lead is responsible for monitoring developments that are relevant to investor stewardship, including through responsible investment industry groups such as the PRI, IGCC and RIAA, as well as monitoring the activities of peers, and taking these into account when undertaking all actions under this policy and when updating this policy.

6 Exceptions

Exceptions to this policy must be approved by both the Head of Impact & Ethics and the Chief Investment Officer, or their delegates.

7 Adherence with Group Policies, Practice Notes and Procedures

Employees must adhere to, and are responsible for familiarising themselves with, all Australian Ethical's policies, practice notes and procedures.

8 Whistleblower provisions

In certain circumstances an individual may be concerned that unacceptable behaviour, misconduct or other reportable conduct (as defined in the Whistleblowing Policy) has occurred in relation to this Policy but be in a position where he or she believes it would be personally damaging to pursue through normal channels. The Whistleblowing Policy sets out the guidelines and procedures for dealing with information that may be provided with regard to unacceptable behaviour, misconduct, breaches of the Corporations Act 2001, the Australian Securities and Investments Commission Act 2001, the Superannuation Industry (Supervision) Act 1993 and all other matters relevant to whistleblowing. All employees are encouraged to report any known or suspected incidences of reportable conduct to the Whistleblower Protection Officer (WPO) (the Primary WPO is the Group General Counsel and the Secondary WPO is the Chief Risk Officer).

9 Point of contact

The Head of Impact & Ethics and the Ethical Stewardship Lead are the points of contact for matters arising from this Policy.

10 Review cycle

This Policy will be reviewed on a two yearly basis or as deemed necessary by the Ethical Stewardship Lead.