

## **FSC Standard 23:**

### **Principles of Internal Governance and Stewardship**

#### **1 Organisational and Investment Approach**

Australian Ethical is committed to being a responsible investor by taking a holistic view of the social, environmental and financial impacts of investment. We have more than 30 years' experience applying the principles of our Ethical Charter that align with a sustainable future.

Our investment team includes professionals with significant experience within investment markets.

The way we recruit, the way we invest, the way we treat our employees and suppliers, the decisions made by our Trustee are all governed by our Ethical Charter. We are not a 'single slogan' offering, but are true to our ethical label, through and through.

Our clients invest with us because they consider it in their best interest to align with our Ethical Charter which drives our investment strategy and we are committed to putting our clients' interests first. We consider ourselves to be the leader in ethical investment in Australia with the highest ethical conviction in our investment selection, coupled with our advocacy for more ethical behaviour in the corporate and broader community.

For over 30 years we have been committed to putting clients' interests first and have core values which are built around this premise.

Australian Ethical Investment Limited (ASX code AEF) is publicly listed on the Australian Stock Exchange and employees of Australian Ethical may own shares in the company.

#### **2 Management**

The overall operation of Australian Ethical is governed by the following forums:

- Board
- Audit, Compliance and Risk Committee
- Senior Management Team

##### **a) Key management and investment personnel**

Details of our investment team and senior management team can be found on our website at <https://www.australianethical.com.au/people/>

##### **b) Investment Strategies and Conflicts of Interest**

Australian Ethical Investment Ltd has a long history of actively seeking out investments that are positive for society, animals and the environment and avoiding investments in harmful activities. Ethical Investment is our only business. We believe the more money doing good for the planet, the better.

Since 1986 we have based our investment strategy on the 23 principles included in our Ethical Charter which allow us to invest in ethical and responsible initiatives that have a positive impact on the planet, people and animals and we avoid investment in companies that do not align with these principles.

The Ethical Charter can be located on our website at the following location <https://www.australianethical.com.au/australian-ethical-charter/>

We have a Conflicts Management Framework which documents the policy and procedures in place for identifying, managing, monitoring and reporting situations giving rise to actual, potential and perceived conflicts of duty and interest for Australian Ethical and for its Directors and employees. This ensures that conflicts of interest are managed honestly, transparently and fairly in accordance with the highest ethical standards.

### **3 Internal Governance**

#### **a) Ethical conduct and professional practices**

We make every effort to maintain our well established reputation as one of Australia's most highly regarded ethical investment companies. Ethics and compliance are embedded in our operations and compliance with regulations and policies rests with every employee. All employees are required by policies to adhere to the highest standard of integrity and fair dealing. Failure to comply with the law, internal policies, the values, code of conduct or failure to co-operate with an internal investigation may result in corrective action and may include immediate dismissal.

#### **b) Personal trading**

The Australian Ethical Group Share Trading Policy applies to all directors, employees (whether permanent or temporary) and contractors and outlines the standards which apply to trading in any securities, including trading in Australian Ethical's shares that are listed on the Stock Exchange.

Key elements of the Share Trading Policy are:

- All employees must seek the permission of the Chief Investment Officer prior to conducting personal trading (the Chief Investment Officer must seek permission from the Managing Director) in Securities as defined in the Share Trading Policy.
- For trading in Australian Ethical's own shares permission must be sought from the Managing Director (the Managing Director must seek permission from the Chairman).
- Risk and Compliance perform post trade monitoring of employee trades
- Employees are required to provide Risk and Compliance with a register of holdings and trades conducted, each quarter.
- Employees are always required to place the interests of clients before their own personal interests and to avoid any conflict of interest or appearance of conflict with the activities of Australian Ethical.

#### **c) Management of conflicts of interest to ensure clients' interests take priority (including gifts and entertainment)**

We have a Conflicts Management Framework which documents the policy and procedures in place for identifying, managing, monitoring and reporting situations giving rise to actual, potential and perceived conflicts of duty and interest for Australian Ethical and for its Directors and employees. This ensures that conflicts of interest are managed honestly, transparently and fairly in accordance with the highest ethical standards.

The Conflicts Management Framework includes materiality thresholds for the receipt of gifts from those doing business, or intending to do business, with Australian Ethical which may give rise to a real or apparent conflict of interest. The Group Register of Relevant Interests captures all relevant interests which have been identified, and rates each interest as either material or non-material based on the Board's opinion of the capacity of the interest to impact the ability of the Group, or a Responsible Person or employee of the Group, to act in a manner that is consistent with the best interests of beneficiaries, investors and shareholders.

This Register can be located on our website at the following location  
<https://www.australianethical.com.au/shareholders/corporate-governance/>

**d) Risk management and compliance**

Australian Ethical recognises that risk management is an integral part of good management practice and is integrated into the Australian Ethical philosophy, practices and business planning processes. A risk aware culture and operation within Australian Ethical's risk appetite and tolerances is promoted throughout the organisation through regular communications from management.

The objective of the risk management framework is to provide greater certainty for Australian Ethical and key stakeholders that objectives will be met by identifying and managing the risks that may hinder Australian Ethical and its key stakeholders (which includes investor and clients) from achieving them.

The Risk Management Framework includes the following risk categories: compliance, financial, fraud, governance and decision making, insurance, investment, liquidity, operational, outsourcing, people and strategic and external.

Australian Ethical's Senior Management Team, which includes the Managing Director, Chief Risk Officer and other senior executives, is responsible for fostering and enhancing development of risk culture within Australian Ethical, monitoring risks/ treatments, reporting breaches and reviewing of the risk register.

Training of employees in risk awareness, risk management and the role that they play is an important aspect of developing a culture where risk is actively managed.

**e) Error correction policy**

Australian Ethical's Incident Management Policy defines an incident as any act or omission that results in an expected outcome not being achieved. All incidents are recorded in the Incident Register, including investment errors. Each business unit is required to lodge an incident report, which includes details of the incident, any corrective action required, a calculation of any compensation payable (where applicable) and proposed changes to controls and procedures. Compensation calculations for material errors are reviewed and authorised by the Managing Director. The number and categories of incidents, including those that were reported to a regulator, are reported to the Senior Management Team, Audit, Risk and Compliance Committee and Board on a quarterly basis.

**f) Brokerage and commissions**

Australian Ethical does not permit the use of equity trading commissions (also known as soft dollar arrangements) to purchase goods and services. Australian Ethical pays for standard full service brokerage for the execution of transactions with the executing broker. Full service brokerage may include research from the executing broker.

**g) Equitable asset valuation and pricing**

Australian Ethical's general approach to valuations includes valuing assets in accordance with accounting standards and best practice principles, which currently is to value assets at fair value.

Unit prices are struck in accordance with the Unit Pricing Policy. Security prices are obtained, where possible, from widely used price feeds from independent security pricing services, and are based on market price where the security is traded on a properly regulated or directly from the asset manager for alternative and property assets.

The Asset Valuation Policy outlines the process to be undertaken where an independent security price is not available. The Chief Financial Officer will determine the action to be taken in these circumstances in accordance with Asset Valuation Policy.

#### **h) Best execution and trade allocation**

Australian Ethical has a Best Execution Policy and a Trade Allocation Policy that outline the principles to be followed for best execution and of trade allocation.

When determining best execution Australian Ethical will act in the best interests of investors by taking into account the following factors to the extent relevant:

- Price, including transaction costs
- Execution capability including speed of execution
- The counterparty's status and reputation
- The quality and efficiency of the settlement process post-execution
- Size and nature of the order; and
- Any other relevant considerations.

Each of these factors will not necessarily be given equal weighting in our evaluation of how to obtain the best possible result and we will determine the relative importance of each of these factors by reference to:

- The characteristics of the fund for whom the investment is to be made
- The characteristics and nature of the order
- The characteristics of the financial instruments that are the subject of the order; and
- The characteristics of the execution venue (regulated markets, third party brokers) to which the order can be directed.

When determining trade allocation Australian Ethical will apply the following principles:

- All proposed trades must be pre-allocated
- Actual allocation must follow the pre-trade allocation
- In the event that a trade is not fully allocated, actual allocation must follow a pro-rata based on the pre-trade allocation, unless the pre-trade allocation was unrealistic (relevant for IPO or deal allocations). In such cases, the actual allocation must follow a pro-rata based on actual holdings.
- No fund will receive preferential allocation treatment over another.

Where Australian Ethical invests in a collective investment vehicle managed by an external investment manager, we will assess the external investment manager's trade execution policy and procedures prior to investing.

#### **i) Remuneration policy**

Our remuneration structure is outlined in the Annual Report which can be found on our website at <https://www.australianethical.com.au/shareholders/annual-and-sustainability-reports>

#### **j) Whistle-blower protection policy**

Australian Ethical has a Whistleblowing Policy in place which can be found on our website at <https://www.australianethical.com.au/shareholders/corporate-governance/>.

#### **k) Training and development**

Australian Ethical supports employees in their ongoing journey of learning and development through on-the-job training and coaching and attendance at external training courses and conferences. We encourage many training courses including those run by the Responsible Investment Association Australia (RIAA).

Employees need to have the requisite skills and knowledge to provide financial services under Australian Ethical's Australian Financial Services Licence. Employees are required to maintain training registers to record completed mandatory training hours.

#### **l) Complaints and dispute resolution**

Australian Ethical has a Complaints Handling Policy and Complaints Handling Procedure that outline the standards that apply to all complaints. .

A complaint is defined as an expression of dissatisfaction made to Australian Ethical, related to its products or services, or the complaints handling process itself, where a response or resolution is explicitly or implicitly expected.

The client services team aims to resolve complaints as soon as practically possible.

As required by our licence Australian Ethical has an internal dispute resolution system and is a member of an external dispute resolution service.

Details of how to lodge a complaint, including details of the external dispute resolution service, are available on our website at <https://www.australianethical.com.au/lodge-a-complaint/>

## **4 Asset stewardship**

#### **a) Monitoring of company performance on financial and non-financial matters**

Our investment and ethics research team monitor companies we invest in on a regular basis to understand all aspects of their businesses operations (both financial and non-financial) and to ensure that they continue to meet the principles of our Ethical Charter.

Generally we seek to make use of publicly disclosed information. However, we may gain access to information that has not been publicly disclosed as a result of our engagement activities with investee companies. Where this is the case Australian Ethical records the company on the Restricted Trading List and no investment transactions for these companies can be executed while the company remains on the Restricted Trading List.

#### **b) Engagement with company management and the board (where appropriate) and escalation of issues in instances where initial engagements have not been adequately responded to**

Australian Ethical's investment and ethics team meets with companies we invest in on a regular basis. We may escalate any concerns raised to relevant company management or their board . Decisions to escalate are made on a case by case basis.

#### **c) Environmental, Social and Governance factors**

Environmental, Social and Governance (ESG) factors are included in our Ethical Charter. We have more than 30 years' experience applying the principles of our Ethical Charter to our investment strategy. Details of our Ethical Investment Policy can be found on our website at

<https://www.australianethical.com.au/shareholders/corporate-governance/>

**d) Proxy Voting**

Australian Ethical is driven by positive social and environmental purpose and is a strong advocate for corporate and industry behaviour change. We believe that our actions will empower others to behave in a way that enhances the wellbeing of everyone. We also recognise that the exercise of voting rights may have the potential to influence corporate governance and policy. As a signatory to the United Nations' Principles for Responsible Investment (UNPRI), we are committed to being an "active" owner, by voting on shareholder issues and participating in collective engagement activities. Details of our Proxy Voting Policy can be found on our website at <https://www.australianethical.com.au/shareholders/corporate-governance>

**e) engagement with other investors, including industry groups and associations**

Australian Ethical may choose to engage with other investors, including industry groups and associations provided that the outcome of any engagement continues to meet the principles of our Ethical Charter.

**f) Policy advocacy including participation with industry groups and associations**

We view active shareholder ownership and advocacy as a responsibility of ethical investors and key to creating positive, sustainable change. There are a number of ways Australian Ethical advocates for change:

- We engage with companies we invest in when we're concerned about something they are doing. Unsatisfactory outcomes from engagement could lead to divestment.
- When considering investing in a company, but we would like them to make ethical changes before we do, we discuss our concerns with them and we may even make a small investment so that we can engage as a shareholder
- We engage policy makers and policy influencers and often make submissions to Government on issues of concern
- We run and support campaigns for change alongside our members and other like-minded groups.

Australian Ethical has been a signatory to the UN Principles for Responsible Investment since 2006.

Other current memberships include:

- Responsible Investment Association Australasia (RIAA)
- Investor Group on Climate Change (IGCC)
- Sustainable Business Australia
- BCorps Community

**g) Client engagement, education and communications regarding asset stewardship**

We regularly communicate with our clients on how we are advocating for change regarding sustainability for the people, the planet and animals. Our position on topical issues can be found at

<https://www.australianethical.com.au/super/our-position-on-topical-issues/>

In addition, we have hosted a number of events focussing on sustainability issues as they apply to our investments.