



# Ethical investment policy

September 2024

**Note:** this policy should be read in conjunction with the Ethical Investment and Stewardship Approach

Policy details	
Owner	CIO
Source	S:\FundsMgt\Policies
Next review date	August 2025

Version	Date	Nature of amendment	Approved by
1.0	February 2019	New policy	Investment committee
2.0	February 2020	Policy review	Investment committee
3.0	August 2021	Policy review	Investment committee
4.0	August 2022	Policy review	Investment committee
5.0	June 2023	Policy review	Board
6.0	September 2023	Policy review	Board
7.0	September 2024	Policy review	Board

## Definitions

Please refer to Appendix A for negative and positive screening definitions.

Reference to a company or companies also includes an issuer or issuers of debt securities.

## Ethical investment process

U Ethical's investment process aligns with our vision and promotes prudent financial stewardship, where relevant through:

- the application of negative screens
- environment, social, and governance (ESG) factor integration including positive screening and alignment with the United Nations' Sustainable Development Goals in equity portfolios where relevant, and
- stewardship and industry collaboration

## Application of the ethical investment policy by asset class

The application of the Ethical Investment Policy varies depending on the asset class.

<b>Asset class</b>	<b>Negative screening</b>	<b>Positive screening</b>	<b>ESG integration</b>	<b>Stewardship</b>
Cash, cash equivalents and term deposits	Limited	No	No	Limited
Fixed income	Yes	Limited	Limited	Limited
Australian equities	Yes	Yes	Yes	Yes
International equities	Yes	Yes	Yes	Limited

Further details on the ethical Investment process can be found in the Ethical Investment and Stewardship Approach.

## Negative screening

Our negative screening evaluates a company's products, services and activities and the extent to which these do or may impact society or the environment. Consistent with our ethical position, we avoid investing in companies that (please refer to Appendix A for definitions on screening criteria and materiality):

- do not comply with environmental legislation
- infringe on human rights
- contravene international conventions

Our screening approach means we do not invest in companies and issuers directly deriving revenue or earnings from the activities listed below. This is either zero tolerance or where revenue or earnings exceed a materiality threshold of 5% of the total (please refer to Appendix A for definitions on screening criteria and materiality):

### Zero tolerance

- Controversial and nuclear weapons
- Tobacco production
- Nuclear power

### 5% materiality threshold

- Fossil fuels—coal mining, oil and gas production, power generation and equity ownership
- Uranium mining
- Civilian and conventional weapons
- Predatory lending
- Gambling
- Adult entertainment
- Animal cruelty and exploitation
- Alcohol production

We recognise that there are circumstances when companies inadvertently violate the above criteria, but they are making genuine efforts to rectify the violation.

Cash, cash equivalents and term deposits are only exposed to the financial services sector (predominantly banks) and given the nature of the underlying investments this limits full application of negative screening. The focus on screening for these issuers is on issuer controversies and overall ESG profiles.

Our Ethical Investment and Stewardship Approach is designed to explain how we implement our Ethical Investment Policy and contains further details on ESG integration, positive screening and our approach to stewardship.

## ESG integration

U Ethical's investment process integrates ESG considerations with the aim of both minimising investment risk exposure and identifying investment opportunities. A qualitative and quantitative ESG analysis is conducted across all new holdings prior to investment. ESG factors vary according to industry and company or issuer. Company controversies and overall ESG profiles are monitored on an ongoing basis.

As part of that process, U Ethical applies an in-house ESG score for equities that includes climate risk and transition, overall ESG profile and positive screening to environmental and social solutions. This ESG score may affect portfolio weightings and the prioritisation of stewardship activities.

### Positive screening

We seek to invest in companies that align with our ethical investment philosophy through positive screening. For equities, this information constitutes a part of our overall ESG score for companies.

For Australian and international equities, we utilise the MSCI ESG Sustainable Impact Metrics (SIM) framework for an initial screen. This assesses product and services revenue alignment to the United Nations Sustainable Development Goals (UN SDGs) across six Environment Impact and seven Social Impact categories where relevant. All 17 UN SDGs are assessed in the net alignment analysis from Strongly Aligned to Strongly Misaligned. This is followed by an internal review. We also screen for companies that indirectly support these categories across the value chain and are aligned to longer-term investment themes.

### MSCI Sustainable Impact Metrics Taxonomy (please refer to Appendix A for definitions)

Pillar	Themes	Categories
Environmental impact	Climate change	Alternative energy Energy efficiency Green building
	Natural capital	Sustainable water

		Pollution prevention and control Sustainable agriculture
Social impact	Basic needs	Nutrition Major disease treatments Sanitation Affordable real estate
	Empowerment	SME finance Education Connectivity – digital divide

Source: MSCI ESG Research, *MSCI ESG Business Involvement Screening Research, Global Sanctions, and Sustainable Impact Metrics Methodology Summary Guide for Corporate Issuers*, October 2022.

For fixed income, we screen for green, social, sustainable and sustainability-linked bonds and loans that target identifiable environmental, social or sustainability impact from the issuance and use of proceeds. However, any allocation to these securities is subject to other portfolio construction, investment performance and risk management criteria. Positive screening is not relevant for cash, cash equivalents and term deposits.

## Stewardship – engagement and advocacy

We acknowledge that ethical investment decisions are complex and require careful consideration of both negative and positive factors. Through stewardship, U Ethical manages risks within portfolios by seeking to influence change at portfolio companies.

Our stewardship activities are focused on Australian equity holdings, where there is better access to company management. However, there is a large overlap with cash, cash equivalent, term deposit and fixed income issuers. Ownership of cash and fixed income instruments can therefore enhance our leverage for engagement and advocacy with some companies. Stewardship is selectively pursued for other issuers and international equity holdings where severe controversies need to be addressed or an overall improvement in ESG profile is desirable.

It is possible that our research uncovers companies held in our portfolios which have subsequently become involved in activities or practices which are inconsistent with our ethical criteria. Our first step is to initiate a process of direct engagement as a means of encouraging remediation and/or advocating for change. If engagement does not deliver satisfactory outcomes, we may then exclude companies from our investable universe.

In addition to direct engagement with portfolio companies, U Ethical collaborates with investment peers, industry bodies and civil society organisations to advocate for systemic change. This gives us greater leverage and influence than is often possible when acting alone.

## Industry representation

U Ethical participates as a responsible investor through membership of industry bodies including:

- Responsible Investment Association Australasia (RIAA)
  - RIAA's Human Rights Working Group
  - RIAA's Policy and Advocacy Technical Expert Group (TEG)
  - RIAA's Nature Working Group
- United Nations Principles for Responsible Investment (UNPRI)
  - UNPRI's Tax Reference Group
  - UNPRI's Global Policy Reference Group (GPRG)

- The Investor Group on Climate Change (IGCC)'s ClimateAction 100+
- Investors Against Slavery and Trafficking (IAST)
- B Lab Australia and New Zealand
- Banking and Finance Oath Limited (signed by individual team members)

## Appendix 1 – definitions

### Materiality

Measure	Definition
Revenue	Gross revenue (or equivalent measure where not available) of the company, parent or holding company and direct company subsidiaries as reported in audited financial statements. This is the primary method of screening for materiality.
Earnings	Net profit after tax (or equivalent measure where not available) of the company, parent or holding company and direct company subsidiaries as reported in audited financial statements. This is the secondary method of screening for materiality to ensure exposure to excluded sectors or practices is captured where this is via a minority investment in other businesses and is not captured in revenue figures.

### Negative screening – general

Factor	Definition
Non-compliance with environmental legislation	Breaches and violations of regulatory and statutory frameworks leading to negative impacts resulting from environmental damage such as biodiversity and land use, toxic emissions and waste.
Infringe on human rights or contravene international conventions	Breaches and violations that are inconsistent with our ethical position on the underlying principles of global norms and conventions, such as: <ul style="list-style-type: none"> <li>• The United Nation Global Compact (UNGC)</li> <li>• The United Nations Guiding Principles on Business and Human Rights (UNGPR)</li> <li>• The International Labour Organisation (ILO) Conventions (core and broad conventions)</li> <li>• Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises</li> </ul>

### Negative screening – zero tolerance

Factor	Definition
Controversial and nuclear weapons	Manufacturing or distributing controversial or nuclear weapons, including cluster munitions, landmines, and biological, chemical or white phosphorous weapons.
Tobacco production	Manufacturing of tobacco products, including e-cigarettes and inhalers. This does not include the distribution and retailing of tobacco products or packaging.

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Nuclear power

Energy generation from nuclear fission.

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## Negative screening – 5% materiality threshold

Factor	Definition
Fossil fuels	<ul style="list-style-type: none"> <li>• Thermal coal mining and energy generation revenue from coal</li> <li>• Metallurgical coal mining revenue</li> <li>• Oil and gas extraction, production and energy generation revenue from oil and gas</li> <li>• Equity ownership of the above</li> </ul>
Uranium mining	Uranium mining
Civilian and conventional weapons	Manufacturing or distributing civilian or conventional weapons.
Predatory lending	Products or services with lending practices (company-wide or systemic to the sector) that are unfair or deceptive to borrowers by taking advantage of a borrower's lack of understanding or access to traditional finance. This includes loans at higher than commercial rates of interest such as payday loans.
Gambling	Ownership and operation of gambling facilities, as well as gambling or wagering products or services, and online gambling.
Animal cruelty and exploitation	<p>Animal cruelty and exploitation includes acts that unnecessarily physically or psychologically harms sentient beings for human benefit. This is in accordance with the standards and definitions set by the Royal Society for the Prevention of Cruelty to Animals and People for the Ethical Treatment of Animals.</p> <p>Animal suffering should be avoided with respect for their welfare and animals given the opportunity to live healthy and good quality lives. We exclude companies that use animal testing for non-medical purposes where this is not mandated by laws or regulations, for example cosmetics. Where testing is mandated, we seek demonstration of best practice such as the 3R principles (replacement, reduction, refinement), which are part of the framework for the ethical, humane and responsible care and use of animals for scientific purposes in Australia and internationally, or other alternatives.</p>
Alcohol production	Manufacturing of alcoholic products and beverages. This does not include the distribution and retailing of alcoholic products and beverages.
Adult entertainment	Making, distribution or retailing of products or services where the dominant theme is sexually explicit conduct depicted or described in a lascivious way.



## Positive screening – MSCI Sustainable Impact Metrics (SIM) category definitions

### Climate change

- Alternative energy – Products or services that support the transmission, generation, plant development, and storage of renewable energy derived from solar, small-scale hydro (25 MW), wind, geothermal, waste-to-energy, and biofuels.
- Energy efficiency – Products and services that support the maximisation of productivity in labour, transportation, power, and domestic applications with minimal energy consumption.
- Green Building – Design, construction, redevelopment, retrofitting, or acquisition of green-certified properties such as Leadership in Energy and Environmental Design (LEED), Building Research Establishment Environmental Assessment Model (BREEAM), and equivalents.

### Natural capital

- Sustainable water – Products, services, infrastructure projects and technologies that resolve water scarcity and water quality issues, through minimising and monitoring current water demand, improving the quality and availability of water supply to improve resource management in both domestic and industrial use.
- Pollution prevention and control – Products, services, infrastructure projects, and technologies that reduce volumes of waste materials through recycling, minimises the introduction of toxic substances, and offers remediation of existing contaminants, such as heavy metals and organic pollutants.
- Sustainable agriculture – Forest and agricultural products that meet environmental and organic certification requirements to address significant biodiversity loss, pollution, land disturbance, and water overuse.

### Basic needs

- Nutrition – Products classified under the 'basic food' category, as defined by Choices International. These products include such as dairy, milk, poultry, cereal, nuts, seeds, grains, fruits and vegetables.
- Major disease treatment – Manufacture and sale of products used to treat the world's major diseases as defined by the World Health Organization (WHO).
- Sanitation – Manufacture and sale of basic sanitation products. Personal hygiene products for basic hygienic needs and not simply for beauty/cosmetic applications or luxurious use.
- Affordable real estate – Development, lease, and sale of residential and commercial properties devoted to being managed under social rent, homes affordably priced for the low-income segment, residences for the elderly, affordable student housing, and commercial spaces for small and medium enterprises (SMEs).

### Empowerment

- SME finance – Loans provided to micro, small and medium-sized enterprises (MSMEs).
- Education – Sale of education-related products and services used for primary, secondary, undergraduate, and post-graduate studies.
- Connectivity (digital divide) – Products and services that provide or support internet access for people in the Least Developed Countries (LDCs) as defined by the United Nations.

Source: MSCI ESG Research, *MSCI ESG Business Involvement Screening Research, Global Sanctions, and Sustainable Impact Metrics Methodology Summary Guide for Corporate Issuers*, October 2022.

### **Positive screening – Green, social, sustainable and sustainability-linked bonds and loans**

Green, social, sustainable and sustainability-linked bond issuers and loan borrowers who commit either to use the proceeds raised for green, social or sustainable projects, or to meet pre-defined sustainability objectives in the case of sustainability-linked bonds.