

# Stewardship Report

Our engagement  
and advocacy

2023–24





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About the report **3**

---

The investment and  
stewardship team **4**

---

Environmental, Social and  
Governance (ESG) integration:  
avoiding risk and setting  
the stewardship agenda **6**

---

Why undertake active  
stewardship? **9**

---

What prompts engagement  
& advocacy activities? **10**

---

Our areas of engagement focus **11**

---

Engagement activities **12**

---

Engagement case studies **16**

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## About the report

**We are proud to present the U Ethical 2023-2024 Stewardship Report, which offers a comprehensive account of our stewardship activities throughout the year. This report highlights how we systematically integrate Environmental, Social, and Governance (ESG) factors into our investment decisions and the actions we take to engage with companies on responsible business practices. Through these efforts, we aim to create long-term value for our clients while contributing to a more sustainable and ethical society.**

At U Ethical, we view responsible stewardship as a cornerstone of our commitment to both financial success and ethical integrity. Our fiduciary duty drives us to pursue long-term returns for our clients while holding companies to high standards of governance, environmental responsibility, and social impact. We actively engage with businesses to promote greater transparency, accountability, and sustainability in their operations.

In FY 24, we took significant strides in strengthening our stewardship framework. This included growing our investment and stewardship teams and sharpening our focus on critical ESG issues. Guided by our principles of authentic leadership, progressive change, and impactful outcomes, we continued to engage with companies and participate actively in proxy voting.

Within this report, you will find data, case studies, and detailed examples of our engagement efforts, demonstrating how we work collaboratively with companies to address both risks and opportunities. Our focus areas—climate risk, human rights, and ethical governance—are key drivers in shaping our investment strategies and decisions.

We hope this report offers valuable insights into U Ethical's commitment to responsible investment and stewardship. We remain focused on making a positive, lasting impact for both our clients and the broader community.

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## The investment and stewardship team



**Jon Fernie**

**Chief investment officer**  
**Credentials: BCom,  
MBA, CFA**

Jon is responsible for investment strategy and provides oversight of U Ethical's portfolios including risk management and implementation of our Ethical Investment Policy. Jon is also the Portfolio Manager for the U Ethical Growth Portfolio. He has over 16 years' experience in the financial services industry with previous roles in equities research and wealth management. Prior to joining U Ethical, Jon was a research manager and equities analyst at Lincoln Indicators, worked as an associate client advisor at UBS Wealth Management in London and was an equities analyst at Austock Securities. Jon holds the Chartered Financial Analyst (CFA) designation and a Masters in Business Administration (MBA) from Melbourne Business School.

*“Ethical investing means making competitive financial returns while also working to make the world a better place for future generations, two purposes which are important to me. We seek to avoid companies that are harmful to people and planet, and targeting those that are strategically placed to make financial return from sustainable future outcomes. We combine this with active engagement and proxy voting, which can directly impact the actions of portfolio companies.”*



**Rachel Alembakis**

**Stewardship manager**  
**Credentials: BS/BA, MSc**

Rachel is responsible for managing U Ethical's active ownership activities, including proxy voting, leading direct and collaborative engagements and contributing to policy advocacy. She was previously the managing editor and founder of FS Sustainability, a Rainmaker title that examines how investors and companies integrate environmental, social and corporate governance issues into their decision-making processes, and was the host of the ESG podcast The Greener Way. She has more than a decade's experience as a financial journalist covering a broad range of investment issues. Rachel holds an MSc in Politics of the World Economy from the London School of Economics and Political Science, a BA in journalism and a BS in political science from Boston University.

*“As an ethical investor, we engage with portfolio companies to not only seek enhanced performance on material environmental, social and governance risks and opportunities, but also because we believe that it is an essential part of being responsible stewards of investment capital. Our stewardship activities are integrated into our investment activities because we see it as a means of adding value.”*



**Kenneth De Bruycker**

**Senior responsible  
investment analyst**

**Credentials: BS, MS, CFA**

Kenneth is responsible for implementing the ESG Investment Policy through comprehensive analyses of companies and our portfolios. He also actively participates as a member of U Ethical's Responsible Investment Committee.

Kenneth has over a decade of experience in the financial services industry, with a strong focus on responsible investing and sustainable finance. He spent several years at KBC Asset Management, directly reporting to the Chief Investment Officer, where he advanced the firm's responsible investing strategies. Kenneth developed ESG methodologies, overseeing investment stewardship activities, and driving key initiatives that aligned the company's operations with the evolving regulatory landscape.

Prior to his responsible investing role at KBC AM, Kenneth worked as a research analyst, conducting in-depth financial analysis and providing strategic investment recommendations in the utility sector. His career began at BNP Paribas Securities Services as a fund accountant, where he managed financial records and transactions for various investment funds.

*“Integrating ESG analysis into the investment process is crucial for achieving long-term success. It ensures that investments are not only financially sound but also align with high ethical standards, that promotes sustainable growth and helps ensure we leave a better world for future generations.”*



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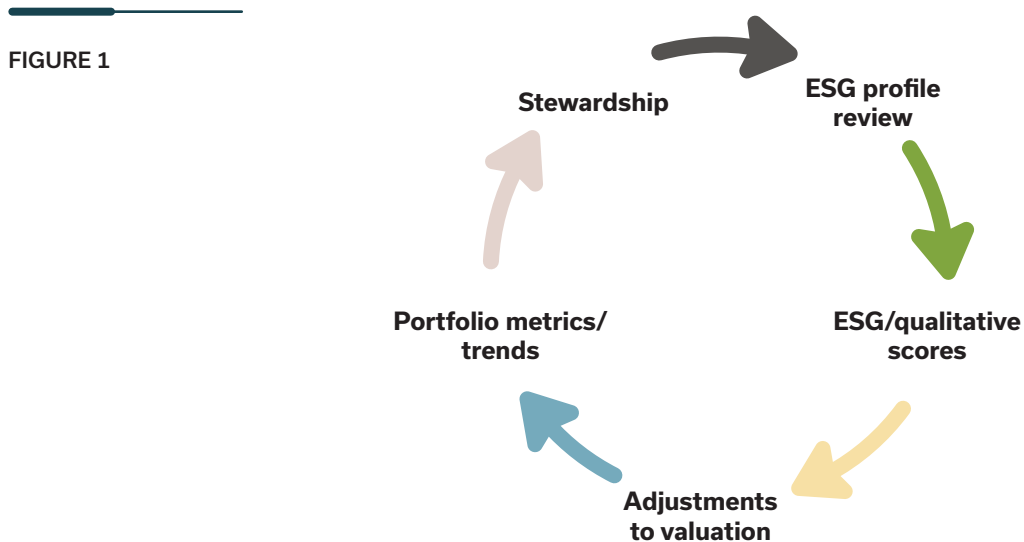
# Environmental, Social and Governance (ESG) integration: avoiding risk and setting the stewardship agenda

**U Ethical’s vision is to improve our world through the power of purposeful investing, and our values are predicated on three principles: *Authenticity*—we do the right thing, not the easy thing; *Progress*—we are open-minded, innovative and future-focused; and *Impact*—we strive for better investments and a better world.**

To achieve that vision, U Ethical’s investment process integrates ESG considerations with the aim of minimising investment risk and identifying investment opportunities. Informed by our ethical investment philosophy, we seek out companies producing goods or providing services that appropriately manage their impact on society and the environment according to industry best-practice, industry standards and/or voluntary frameworks. We also screen out companies that do not meet our selection criteria.

## Our approach to ESG

U Ethical’s investment approach includes building an ethical/ESG profile that identifies risks and opportunities and is completed prior to any investment. It includes identifying and quantifying earnings/valuation impacts from material ESG issues or adjusting qualitative assessments that affect portfolio positioning. This ensures that targeted investments align with the ethical investment policy, meet ESG criteria and it helps identify areas for future engagement activity.



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:

- do not comply with environmental legislation;
- infringe on human rights; and
- 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:

Zero tolerance:

- Controversial and nuclear weapons
- Tobacco production
- Nuclear power

U Ethical - Ethical investment policy 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.

ESG data and analysis further appears in our fundamental screening and rating process as part of the ESG Score.

### **ESG Score**

The ESG Score is made up of three quantitative factors:

- A low carbon transition management score, measuring how aligned a company is to achieving the goals of the Paris Agreement to limit global warming to 1.5°C;
- A weighted average key issue score; and
- A calculation of a company's revenue derived from sustainable impact solutions in line with the Sustainable Development Goals, or where there is indirect support of SDG targets across the value chain.

The ESG Score will influence the overall fundamental rating, which directly impacts the target weights. Additionally, analysts may adjust the qualitative ratings (industry growth, competitive position, board/management assessment) based on ESG information, separate to the ESG Score, which will also directly impact the target weights. The ESG Score can then inform prioritisation of research for new investments or stewardship activities for existing holdings.





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## Why undertake active stewardship?

**As an ethical and responsible investor, we hold the companies in which we invest to high standards. After screening and evaluating potential new investments, our stringent investment process also applies to companies already in our portfolio.**

Our active stewardship program goes further than proxy voting to involve engagement (both direct and collaborative) and advocacy activities:



**Direct engagements:** Individually communicating with holdings in our investment portfolio;



**Collaborative engagements:** Working with industry peers for greater leverage and a unified voice, targeting portfolio holdings (and those outside our portfolios) and critical themes for responsible investors; and



**Advocacy initiatives:** Individually and collectively addressing systemic risks by influencing decisions within political, economic and social institutions.

This on-going dialogue and collaboration drive long-term financial outcomes as well as reducing or pre-empting social and environmental impacts.

### Working together for positive outcomes

After a company is included in our portfolio, we continue to monitor its approach to managing ESG risks. If there is reason for concern, our first step is to work with the company in addressing the matter or identifying areas for improvement rather than simply divesting. Ongoing dialogue with portfolio companies means we can hold focused and constructive discussions and, where possible, help corporate teams establish acceptable roadmaps to resolve issues or embrace best practice with long-term business viability in mind.

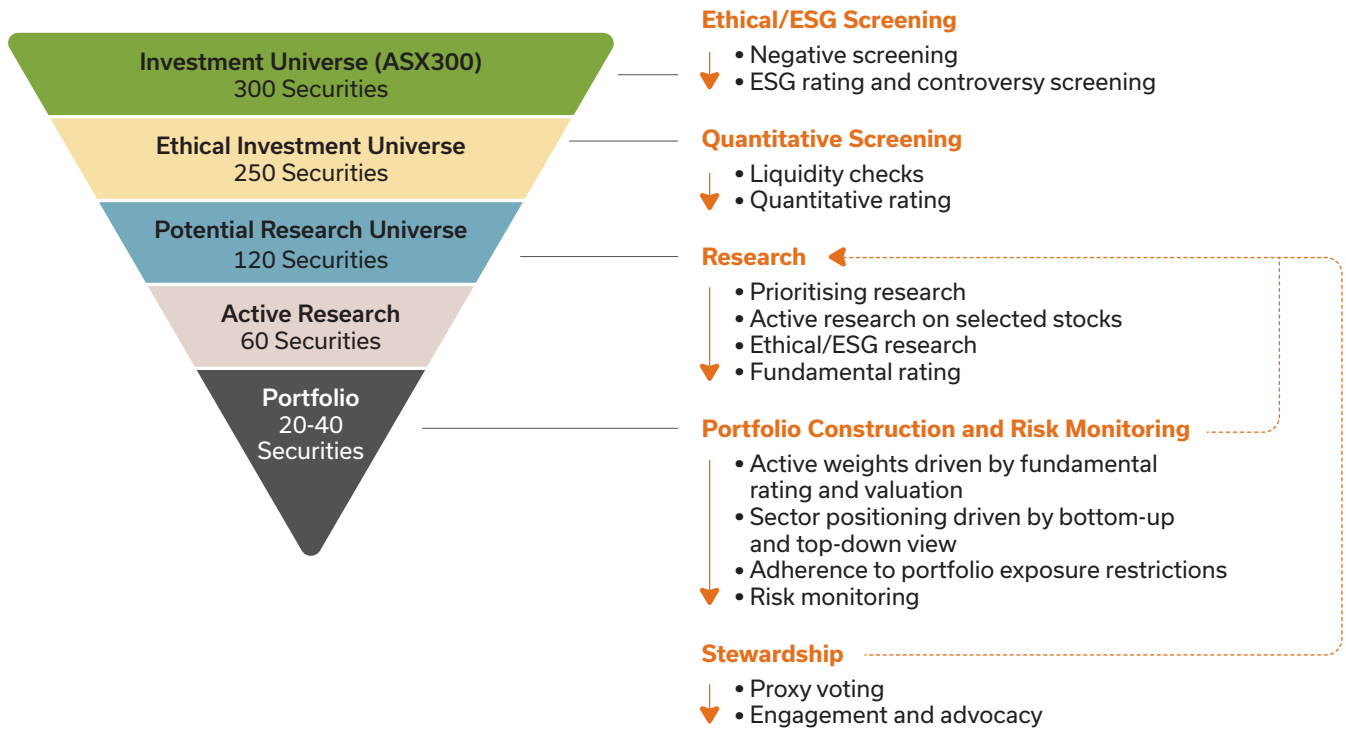
The aim of engagement activities is to see portfolio companies make genuine corporate behaviour changes such as greater transparency, accountability and robust public commitments. We seek commitments from companies that are backed by strategic roadmaps and credible implementation plans, linked where appropriate to executive remuneration and capital investment strategies. Through advocacy, we address systemic risks companies may face in their broader operational environments. This includes advocacy efforts with industry bodies, regulators and civil society groups.

# What prompts engagement & advocacy activities?

After a company is included in our portfolio, we enter the stewardship phase of our investment process (refer to Figure 2). The investment team continues to monitor portfolio holdings. Daily alerts indicate possible changes to portfolio companies' ESG ratings, controversy flags, downgrades or upgrades.

Over and above this, we conduct internal research on both macro and micro economic trend factors, which may require conversations with companies. Finally, the team seeks external guidance from our Ethical Advisory Panel (EAP) on thematic research and ethical considerations that may impact U Ethical's trusts and product development.

FIGURE 2



# Our areas of engagement focus

In order to ensure our active stewardship is focused and in line with U Ethical's client goals for positive impact, we refer to a series of themes that guide our priorities for engagement activities.



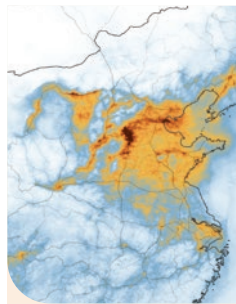
**Social responsibility**



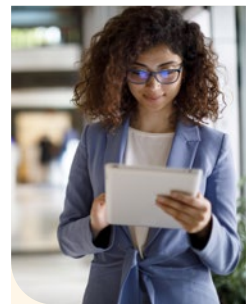
**Human rights & global norms (Modern Slavery)**



**Environmental stewardship**



**Climate change risk**



**Corporate sourcing governance & behaviour**



People



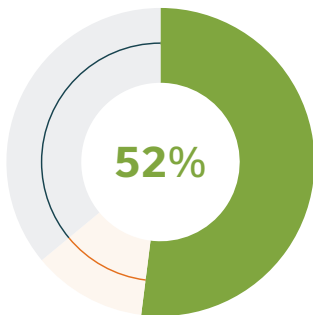
Planet



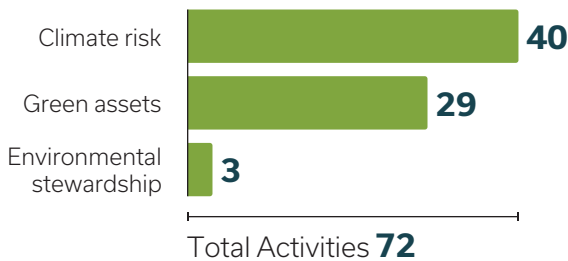
Purpose

# Engagement activities

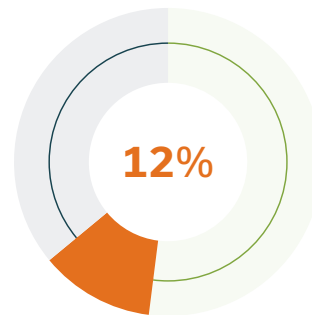
## Environmental engagement



- Climate risk covers discussions about reporting aligned with the Task Force on Climate-related Financial Disclosure (TCFD), robust decarbonisation roadmaps, carbon footprints, clean technology and energy efficiency
- Environmental stewardship covers issues such as raw materials sourcing, chemical safety, toxic emissions, water stress, biodiversity, packaging materials and waste.



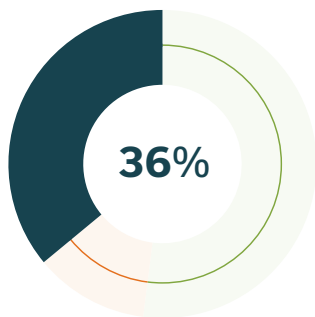
## Social engagement



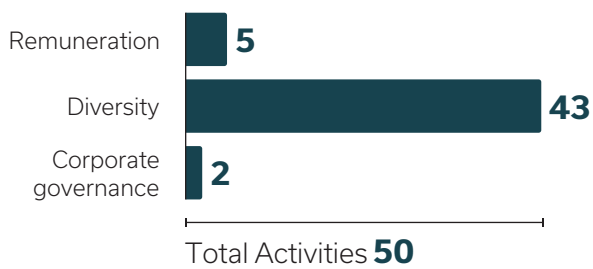
- Social responsibility covers health and safety, consumer financial protection and gambling, privacy and data security, human capital development, product safety and quality
- Cultural heritage covers community relations with First Nations people and commitments to Reconciliation Action Plans (RAP)
- Human rights/Modern slavery includes discussions on labour management best practice, and modern slavery considerations including contract labour and controversial sourcing.



## Governance engagement



- Corporate behaviour includes board structure and independence, ownership and control and accounting practice
- Corporate governance covers business ethics, whistle-blower protection, executive misconduct, corruption and related risks
- Remuneration addresses pay practices, excessive executive remuneration and pay linked to sustainability
- Gender diversity primarily covers board and management level gender diversity.



In FY24, U Ethical's recent engagement and advocacy efforts sought genuine progress toward greater transparency, accountability and credible public commitments from portfolio holdings and the industries or jurisdictions within which companies operate.

Our reach

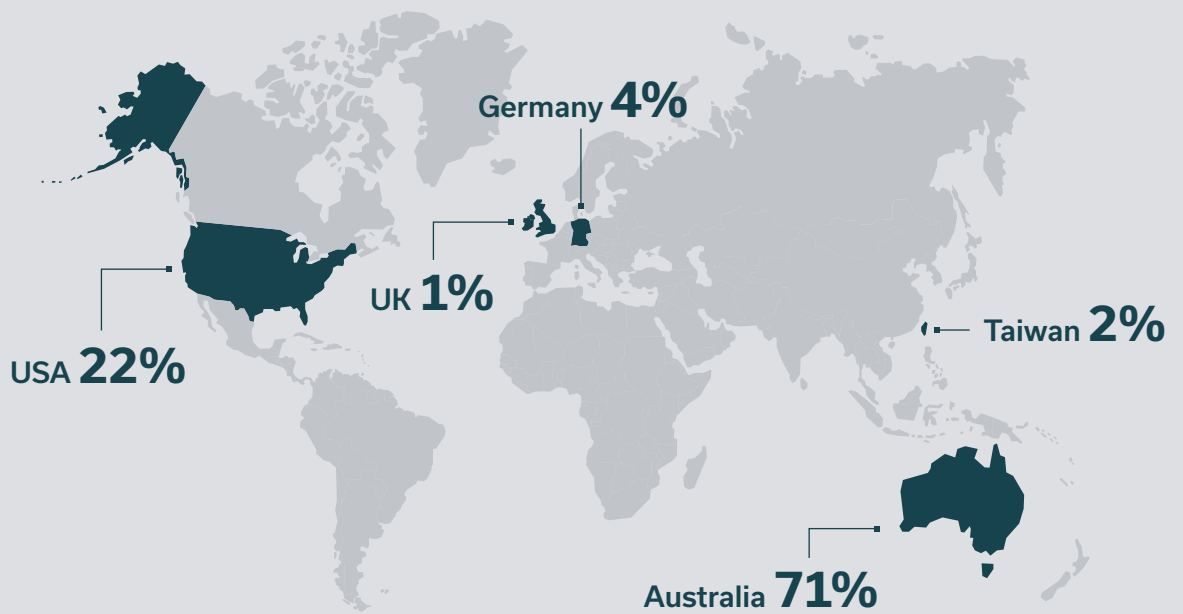


Companies Engaged  
**39**



Discussions  
**94**

Top Markets Engaged



Engagement Type



Individual  
**54**

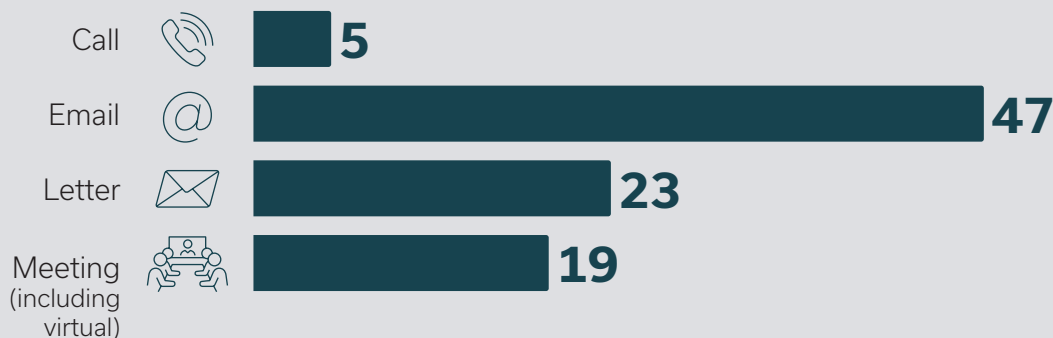


Collaborative  
**9**



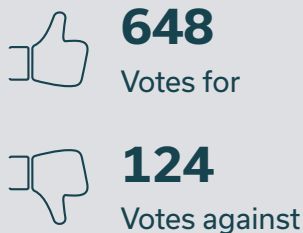
Collaborative Lead  
**31**

### Discussion types – chart

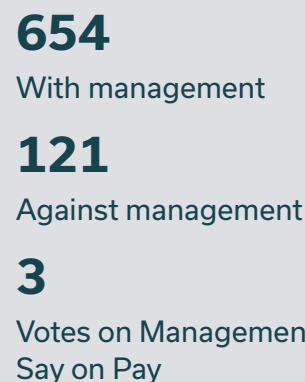


\* This includes media announcements and/or collaborative insights relevant to engagements.

### Voting summary



### Votes /against management



### Company progress on board gender diversity

**72%** of Australian Equities Trust (AET) companies have more than **40%** board level gender diversity.

**34%** of International Equities Trust (IET) companies have more than **40%** board level gender diversity.

### Companies with Reconciliation Action Plans

**54%** of Australian Equities Trust companies have a RAP

### Shareholder resolutions supported

U Ethical voted FOR shareholder resolutions filed with Westpac and National Australia Bank for further disclosure around whether fossil fuel companies will have to provide climate transition plans to obtain new financing for projects.

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## Engagement case studies

### DIRECT ENGAGEMENT

#### Telstra

##### Reason for investment

Telstra Group (TLS) has an MSCI ESG rating of AA and has robust overall corporate governance practices and management of carbon emissions. TLS is Australia's dominant telco with a superior network and market share in mobiles – its key business driver. The company should exhibit defensive earnings characteristics for as long as it has mobile pricing power and the mobile industry remains rational – features which are not always present through the cycle.

##### Reason for engagement

U Ethical engaged with TLS after becoming aware of media reports raising questions over TLS's management and remediation of historic allegations of misselling of contracts/products to Indigenous Australians. The questions related to a 2020 Federal Court action by the Australian Competition and Consumer Commission (ACCC) that resulted in a \$50 million penalty and enforcement actions.

After speaking with peak body Financial Counsellors Australia (FCA) as well as financial counsellors on the ground in Western Australia (WA) and the Northern Territory (NT), U Ethical sought a meeting with TLS to gain further information on the scope of the problem as well as TLS's ongoing action to remediate Indigenous Australians impacted by misselling.

In a meeting, TLS identified that more than 2300 affected people had been identified, with the vast majority of affected consumers located in the NT, far north Queensland and WA.



TLS outlined its actions since 2021. In addition to previously disclosed decisions to buy back franchise licenses and on-shore call centres TLS also provided information relating to its steps to identify and support customers that were victims of misselling:

- TLS has allocated funding to six financial counselling organisations in affected communities, total cost not disclosed. TLS worked with Financial Counselling Australia (FCA) to develop a funding framework for this activity.
- Established a First Nations hotline, staffed by Indigenous Australians, to work with First Nations customers on a variety of issues, including instances of potential and actual misselling. TLS has also paid for cultural training more widely as part of a “continual learning experience.”
- TLS will continue to fund a “pink bus” through affected communities and has committed to working with/coordinating with/alerting local financial counselling organisations on country with the aim of connecting with affected customers face to face.
- TLS created the role of Chief Customer Advocate in December 2021 and appointed Teresa Corbin to the role.



### **Progress or outcomes**

This engagement inquiry was based on concerns over financial inclusion, fair treatment of Indigenous Australian customers that were victims of misselling, and holding TLS accountable to their commitments under their RAP. Ensuring that TLS maintains responsible and fair standards for customers is central to their social license to operate and thus goes to long term financial stability. It is also in line with our commitment to Reconciliation/ Closing the Gap and financial inclusion.

TLS appears to be serious in adequately resourcing external and internal stakeholders to address historic claims. U Ethical will periodically follow up with Telstra to ascertain that all affected individuals have been identified and adequately compensated.



### **Actions**

**May 2024 | Virtual Call**

## DIRECT ENGAGEMENT

### Goodman Group

#### Reason for investment

Goodman Group (GMG) has an MSCI ESG rating of AA and has robust overall corporate governance practices and human capital development. U Ethical's investment case for investment is largely underpinned by its exposure to the industrial sector driven by increase demand for logistics and supply chain optimization, which we perceive as one of the bright spots in real estate. Moreover, Goodman's recent strategic shift towards developing data centres in major global cities enables the accelerations in its development earnings growth from the rising demand of artificial intelligence and cloud computing.

#### Reason for engagement

U Ethical sees gender diversity as a key governance issue for portfolio companies, and has set a target of minimum 40% women directors on boards for portfolio companies. At the time of engagement, GMG had 30% women on board. When this occurs, U Ethical will communicate their desire for the minimum 40% target and seek clarification regarding the board renewal strategy and wider considerations of board skills and diversity in addition to gender.



#### Progress or outcomes

In a meeting, GMG noted that in its recent process of non-executive director appointments, women comprised the majority of newest members on board. They affirmed their commitment to diversity on board and also noted that GMG's recent board appointments also sought directors with experience in technology, given their portfolio of logistics companies, the need for technology in all properties, as well as move into data centres. The focus on new directors is adding skills around sustainability and innovation, workforce and gender, technology, rather than seeking those with real estate experience alone.

GMG noted that several recent appointments added those skills: Chris Green, founder and CEO of GreenPoint Partners, a New York headquartered firm investing in real estate innovation, technology and private equity; Vanessa Liu, co-founder and CEO of SaaS technology company Sugarwork, and an independent director of ASX-listed artificial intelligence company Appen Ltd; and Hilary Spann, vice president at Boston Properties in NY, providing insights into work from home trends, consumer demands.

This enhanced information guides U Ethical's proxy voting intentions with regards to director appointments and reappointments.



#### Actions

May 2023 | Virtual Call

## COLLABORATIVE ENGAGEMENT

### Australian banks and financing of the climate transition

#### Reason for investment

U Ethical is invested in Australia's major banks – ANZ, Commonwealth Bank (CBA), National Australia Bank (NAB), Westpac Group (WBC) and Macquarie Group (MQG). The major Australian banks provide an attractive fully franked income stream to investors. While the lending environment remains competitive, bad debts have remained low and the banks have been able to manage costs well, which has supported earnings and dividends. The banks also remain well-capitalised with solid loan loss provisioning.

#### Reason for engagement

In 2023, U Ethical organised and is the leading investor on a multi-investor collaborative engagement focusing on these banks. We are working with leading responsible and ethical investors in Australia to maximise our impact with the aim of ensuring the banks' high-level commitments to transition to net zero are being implemented in a timely fashion, in line with the work of phasing out fossil fuel investments and no new funding of fossil fuel projects that are not aligned with the Paris agreement.

In 2023, initial calls were held with ANZ, MQG and WBC on the topics that would form this collaborative engagement. U Ethical led the planning to finalise objectives, timelines and next steps. In addition to organising the overarching engagement, U Ethical is lead investor on engagement with MQG, with a first meeting held in July. U Ethical is support investor on WBC and CBA, with other investors nominating to lead and support engagements.



#### Progress or outcomes

As a result of collaborative action, the group was able to pool insights, gain clarity on whether banks will make further commitments and work together to achieve the common aims. A second round of meetings will be held later in 2024.

We are engaging with banks on these issues based on the investment thesis that by gaining greater clarity on banks' transition pathway and facilitated emissions, we assist in the risk-adjusted return profile of our portfolio as well as advocate for an efficient decarbonisation of the Australian finance sector and economy overall.



#### Actions

December 2023, March 2023, July 2024 |  
Virtual Calls

## DIRECT ENGAGEMENT

### Fortescue Metals

#### Reason for investment

Fortescue (FMG) has an MSCI ESG rating of AA and performs strongly on corporate behaviour and biodiversity and land use. Fortescue is a large low-cost iron ore producer with operations in the Pilbara region of WA. The company also has green energy aspirations and has several green hydrogen projects in the pipeline.

#### Reason for engagement

As an overweight position in our Australian Equities Trust, U Ethical is deeply engaged with FMG across the investment and stewardship team. Equities Portfolio Manager Cam Hardie and approximately 60 others attended an October 2023 site visit to its Iron Bridge and Port Hedland operations as well as its Green Energy Hub at the Christmas Creek mine site.

The site visit not only allowed us to see FMG's operations in action, but it also gave us opportunity engage with FMG management and team members we would not normally get access to which, in itself, was invaluable.

The most recent stewardship meeting with FMG was a virtual meeting in conjunction with Uniting Church Senior Social Justice Advocate Mark Zirnsak.

During the discussion, U Ethical expressed support for FMG and Fortescue Future Industries and pressed for information covering:

- Greater transparency and disclosure on how on FMG achieves emissions reductions, and decarbonisation pathways;
- Relations with local First Nations communities in Australia; and
- Community engagement at mine sites in Gabon.



#### Progress or outcomes

U Ethical gained key insights into material ESG issues at FMG, which inform our voting decisions as well as guide our future engagements with the company.



#### Actions

October 2023 | Site visit

October 2023 | Virtual meeting

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## Further reading

**Ethical Investment Philosophy** – An articulation of U Ethical’s values and how these guide our ethical investment processes.



**Ethical Investment Approach** – How we specifically implement our ethical investment policy and processes. A detailed explanation of what we analyse and why.



**Ethical Investment Policy** – An overview of our ethical investment processes; a high-level explanation of our investment screening process, ethical investment research and verification, stewardship, and industry collaborative engagements.



**Climate Risk Report Task-Force on Climate Related Financial Disclosures (TCFD) aligned** – U Ethical’s values include commitments to portfolio alignment with a climate-safe and just transition. All of these considerations are fundamental to U Ethical’s investment philosophy and the long-term risk and return of U Ethical’s portfolios. Our framework for such considerations is outlined in this climate risk report. The report is in line with the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD) recommendations for improving and increasing reporting of climate-related financial information.



Please remember past performance is not a reliable indicator of future performance. Investments are subject to risk and may result in the loss of capital.

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