Climate Risk Report 2024

Our actions on climate risk through 31 December 2024

ethical
investing with purpose

About the report

We are proud to present the U Ethical 2024 Climate Risk Report, which offers a comprehensive update of our investment approach to climate risk in 2024, including our governance, strategy, risk management and evolving approach to targets and metrics.

Through these efforts, we aim to create long-term value for our clients while contributing to action with the goal of limiting climate change to 1.5° C above pre-industrial global temperature levels, in line with the Paris Agreement.

At U Ethical, we view managing the risks and opportunities that arise from climate change as central to our commitment to both financial success and ethical integrity. Our fiduciary duty drives us to pursue long-term returns for our clients, and U Ethical believes that climate risks are financially material and systemic in nature.

Additionally, U Ethical believes the alignment of investment portfolios with a low carbon transition and climate-just transition—where workers' rights and community health are central to the shift to a more sustainable global and local economy—will not only mitigate risk exposure, but ultimately contribute to investment portfolios' resilience and strong financial performance over the long-term.

We see managing climate risk as key to our goal of compounding good—giving back to our investors, to the environment, to communities and to future generations.

We have used the Task Force on Climate-Related Financial Disclosures (TCFD) framework to form the basis of this report, including data, case studies, and other disclosures related to the TCFD's four pillars. The goal is to provide greater clarity in how we manage climate risk, how we think about the intersection of decarbonisation and other material risks and opportunities and our role as an ethical investor. We chose to use the TCFD framework to keep a similar reporting style as our first climate risk report. The Australian Sustainability Reporting Standards (ASRS) Standard 2, which covers climate-related financial disclosure, came into effect 1 January 2025, outside of the scope of the reporting period for this report. We are not yet required to apply ASRS 2 and have not yet determined the impact of ASRS 2 should we adopt voluntarily.

TCFD definitions and recommended disclosures

	Governance	Strategy	Risk management	Targets and metrics
Definition	Disclose the organisation's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.	Disclose how the organisation identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	• Describe the board's oversight of climate-related risks and opportunities. • Describe management's role in assessing and managing climate-related risks and opportunities.	• Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. • Describe the impact of climate-related risks and opportunities on the organisation's business, strategy, and financial planning. • Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	• Describe the organisation's processes for identifying and assessing climate-related risks. • Describe the organisation's processes for managing climate-related risks. • Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	• Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. • Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. • Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

U Ethical's Climate Risk Roadmap

1985

Two investment products are created by the Uniting Church to enable the management of its financial assets in an ethical way. These products eventually led to the creation of what is now U Ethical Investors

2007

UN PRI Signatory

2014

Unconventional oil and gas thermal coal exclusion

2019

Divest from companies that generate more than 5% from fossil fuels (coal, oil and gas utilities and power generation)

2021

First Climate Risk Report (using TCFD)

2024

Signed up to: Investor Group on Climate Change

Governance

U Ethical is an ethical investor with a long-term outlook and believes that climate risks are financially material and systemic in nature. Additionally, U Ethical believes the alignment of investment portfolios with a low carbon transition and climate just transition will not only mitigate risk exposure but ultimately contribute to investment portfolios' resilience and continued strong investment performance over the long term.

- U Ethical's Board has oversight of the development and implementation of the climate risk strategy.
- The Board reviews and approves amendments to U Ethical's ethical investment policy.
- The investment team has delegated responsibility to assess, monitor, evaluate and implement U Ethical's ethical investment policy, which includes fossil fuels exclusions along with climate risk considerations and analytics.
- The Ethical Advisory Panel (EAP) provides counsel on climate-related market and research trends.

Climate risk and opportunity considerations are integrated into our governance alongside ethical, and environmental, social and governance (ESG).

U Ethical's Board oversees the climate risk governance framework and delegates oversight of climate risks and opportunities as they relate to investment portfolios to the Investment Committee (IC) and management of climate-related risks and opportunities to the leadership team.

The IC meets on a quarterly basis and reviews emerging ethical and ESG concerns and monitors the investment team's implementation of U Ethical's ethical investment policy. As part of regular investment performance reporting, the investment team reports to the IC on the equity trusts' ESG profile, Sustainable Impacts alignment, key carbon footprint metrics (including historical data for Scope 1 and 2 emissions) and low carbon transition risk exposures in the form of the Climate Risk Dashboard.

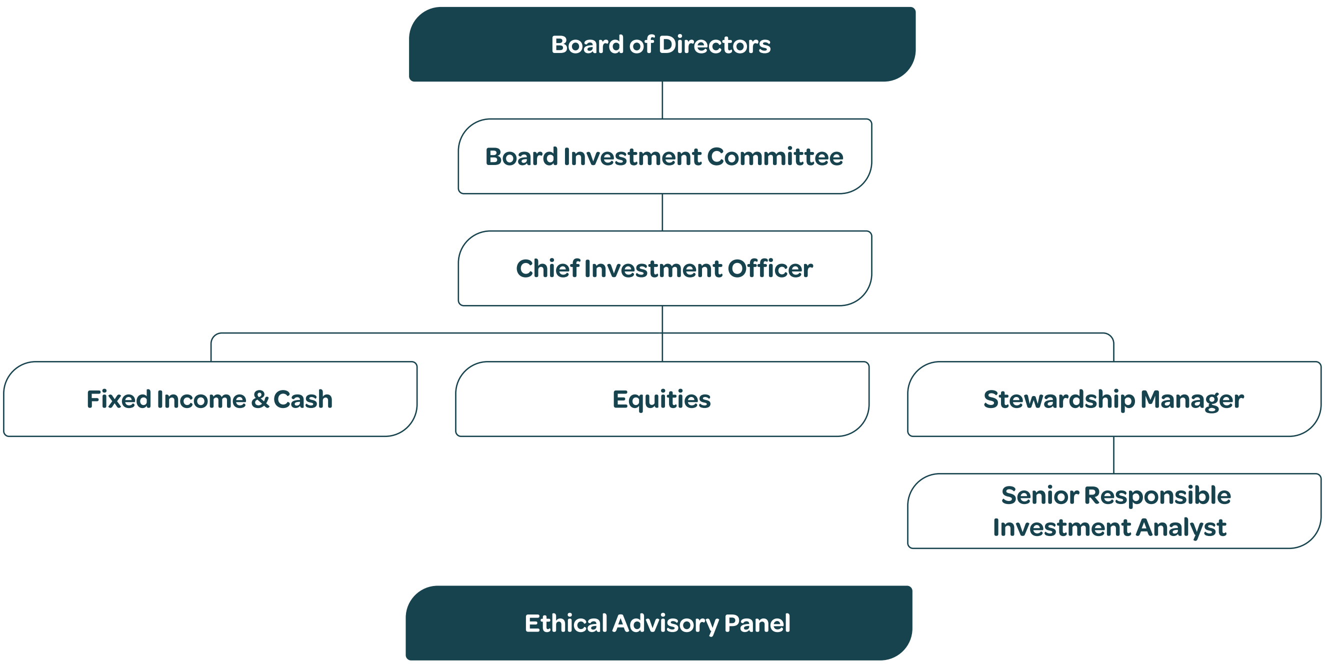
The investment team, led by the Chief Investment Officer (CIO), has delegated responsibility to integrate climate risk considerations into daily investment decision-making. This includes portfolio construction and stewardship activities, including industry collaborations, proxy voting and active direct engagement with companies, regulators and policymakers.

When considering new investments, the investment team accounts for climate change-related risk assumptions (e.g. carbon emissions metrics and low carbon transition risk exposure) in its assessments, alongside ESG profiles (i.e. ESG ratings and controversies data), consideration of company revenue derived from Sustainable Impact solutions in line with the Sustainable Development Goals (SDGs), and negative screening considerations.

The senior responsible investment analyst and stewardship manager are part of the investment team, and are responsible for ensuring that policies, processes and procedures align with the ethical investment policy and are fit-for-purpose. As climate risk management and analysis is a complex and evolving field of research, these specialists ensure the team is informed of both regulatory and research developments.

The investment team also meets regularly to share internal data, reports and market trends with the risk, marketing and distribution teams. Induction of new team members involves both team and one-on-one sessions with individual team members to provide an overview of U Ethical's investment processes, a better understanding of U Ethical's ethical investment policy, clients' values and expectations, along with related reporting capabilities.

In addition to our governance structures, the EAP was established in 2019. It comprises independent experts on climate, social justice and ethical investing more broadly, as well as participants from the board and U Ethical senior leadership. The EAP provides the investment team with guidance on climate-related themes, including target setting, decarbonisation scenarios and reporting requirements. This guidance is used in the execution of investment and stewardship activities.



Strategy

Climate risk is material and systemic. Transition and physical risks are, to different degrees, already impacting several regions as well as asset values. These risks can be acute or chronic, present and emerging, and increase risks to investments, portfolios and our company. There are also opportunities in investing in the transition to a low-carbon future world.

U Ethical's investment climate strategy focuses on:

- Fossil fuels divestment
- Carbon emissions exposure reduction; and
- Preference for portfolio companies and issuers transitioning to a just and low carbon world.

We favour investments in companies that are better positioned in a just and low carbon transition that can be identified in companies' strong governance practices and management's commitments to innovative business models and resilient operations.

On a regular basis, we run portfolio-level carbon footprint analyses for equity trusts and regularly map (for both new and existing issuers) the low carbon transition risk exposures, historical CO2-e emissions reduction trends, and corporate management of climate risk resilience capabilities.

We use the tools of active ownership such as proxy voting and stewardship to assess and engage with companies on their climate risk resilience capabilities and future strategies.

We participate in local, regional and global collaborative investor groups to amplify our voice and address systemic risks with the goal of reducing risks to facilitate companies to align their operations and strategies to the aim of limiting climate change to 1.5°C in line with the Paris Agreement.

U Ethical believes climate risk is not fully priced and it is an undiversifiable risk of a systemic nature. As such, U Ethical believes most sectors, to different degrees, will be impacted by climate change with transition and physical risks varying by region, country and supply chain complexity. Physical risk exposure is already impacting the value of assets such as property, infrastructure and agriculture, which are subject to extreme weather events, bushfires and/or rising sea levels and storm surges.

As a certified B Corporation and not-for-profit fund manager, U Ethical strives for integrity across its business operations, investment products, team engagement and consideration of key stakeholders. We also see opportunities to attract and retain new clients and continue providing positive investment returns to existing clients who see their values related to pursuing a lower carbon investment opportunity aligned with our ethical investment approach.

As an investment manager, the largest impact of climate change on our business and strategy will be how it affects the financial returns of portfolio companies and our investable universe. (See Table 1 for specific impacts to asset classes in which U Ethical invests)

These risks can include:

Physical risk: Both acute due to increased severity of extreme weather events such as flood, fire and drought, and chronic due to increased variability in weather patterns due to rising temperatures and rising sea levels. Physical risk has the potential to reduce revenue due to negative impacts of factors including production capability, workforce capability, increased supply chain costs, increased cost of insurance across a range of assets and activities or withdrawal of insurance provision in jurisdictions where physical impacts are too expensive to ensure increased need for capital reallocation to pay for increasingly scarce resources or shifts in capex/opex to increase resiliency, etc.

Transition risk: Policy, regulatory and legal enhancements including increased reporting obligations and the possible introduction of explicit carbon prices across markets. New technology developments and their impact on capex, R&D and other strategic expenditures.

Market risk: Changing consumer behaviours and market conditions could shift demand for goods and services and lead to the repricing of assets that could affect company valuations.

Reputation risk: Increasing community/ stakeholder concern over business practices, products and services that could result in loss of revenue and/or customers, increased risk of litigation, and increased cost of capital or access to capital.

All of these considerations are integrated into our investment decision-making and strategy.

Portfolio construction

Our ethical investment policy excludes investing in companies involved in fossil fuel activities (coal mining, oil and gas production, power generation and equity ownership in any of the former). After applying these exclusions, our investment approach begins with an ethical/ESG profile that identifies risks and opportunities, including measures of climate risk and transition. This is done as part of an investment initiation report.

This process includes identifying and quantifying earnings/valuation impacts from material ESG issues or adjusting qualitative assessments that affect portfolio positioning. It ensures that targeted investments align with the ethical investment policy, meet ESG criteria and identify areas for future engagement activity.

Our fundamental rating includes a 25% weighting to an ESG score, which is comprised of three quantitative factors, including:

- A low carbon transition management score, measuring how aligned a company is to achieve 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 SDGs, or where there is indirect support of SDG targets across the value chain.

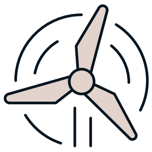
When considering potential new investments and reviewing our existing holdings, our fundamental analysis will assess:

- The climate risk intensity exposure of industry groups;
- The management capabilities of portfolio companies/holdings; and
- Emissions reduction targets and, increasingly, commitments to decarbonisation plans.

Climate-related investment opportunities

Our investment team also regularly reviews opportunities as defined by MSCI ESG's Sustainable Impact themes. We hold stocks in companies that align to the Sustainable Impact themes (all holdings as of October 2024):

Alternative energy:
Vestas Wind Systems

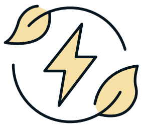


Vestas is one of the best-positioned companies set to benefit from rising wind installation demand, with sound fundamentals and geographical diversification. These benefits should allow the company to outperform its wind peers in terms of margins and cash returns to shareholders. To date, the pure play wind energy solutions provider with a strong clean technology focus in wind power development and service has globally installed capacity of over 177 GW and is estimated to have prevented more than 2 billion tonnes of carbon emissions.

Green buildings:
Goodman Group

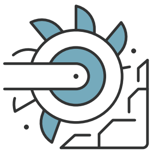
Goodman Group integrates sustainability across its property portfolio by combining sustainable design principles and construction methods with innovative materials to create green buildings. Nearly 50% of its portfolio is verified by green building standards, underpinned by its exposure to the industrial sector which has been driven by increased demand for logistics and supply chain optimisation.

Energy efficiency:
Dexus



The leading real estate investment trust showcases its commitment to sustainability through energy efficiency and carbon emission reduction initiatives. The company aims to reduce its energy intensity by 10% by 2025 against a 2019 baseline, while maintaining 100% renewable electricity sourcing by 2030. Furthermore, Dexus has achieved a 5.2-star NABERS Indoor Environment average rating across its office portfolio, further highlighting its dedication to creating sustainable workspaces.

Energy transition:
Lynas Rare Earths



Lynas Rare Earths plays a critical role in the transition to a low-carbon economy, by supplying critical minerals essential for green technologies like electric vehicles and wind turbines. Additionally, the company has a clear focus on environmentally responsible mining practices and processing operations.

Stewardship

U Ethical applies its stewardship approach as a means of reducing ongoing risk and enhancing potential opportunity.

We prioritise stewardship activities to focus on portfolio companies with the greatest carbon intensity and value at risk based on future climate scenarios. By focusing our stewardship efforts on these companies, we aim to drive meaningful improvements and influence them to adopt more sustainable practices.

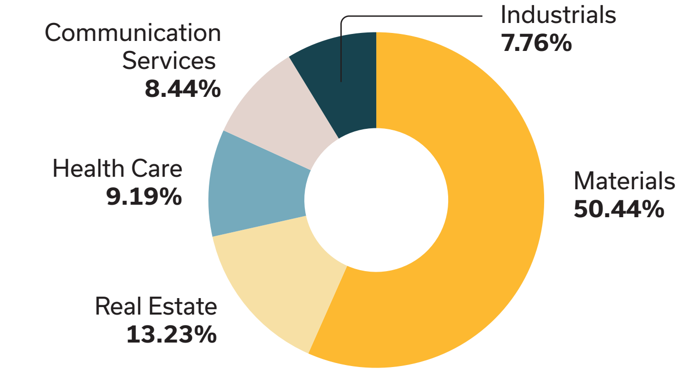
We use three scenarios to measure Climate Value-at-Risk (CVaR) - Remind 1.5° Orderly, Remind 2.0° Orderly and Remind 1.5° Disorderly. At present time, we have applied these calculations to our Australian and international equities strategies.

We are reviewing how to integrate scenario testing to other asset classes and exploring how to include a Net Zero pathway to our scenario analysis.

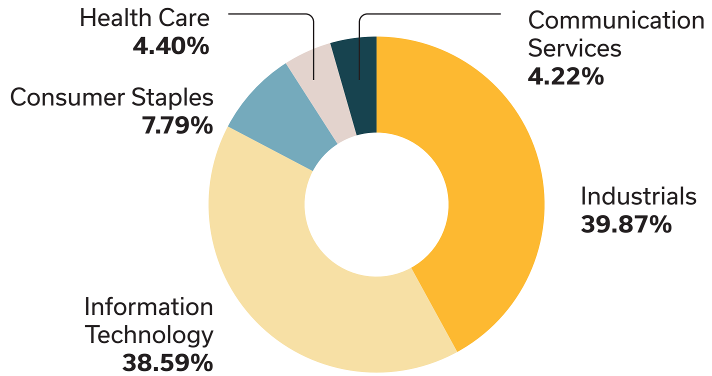
We actively engage with equity portfolio companies directly (and where relevant cash and fixed income issuers) to ensure they consider carbon emissions reduction targets and encourage them to embrace decarbonisation plans in line with the Paris Agreement and industry best practice.

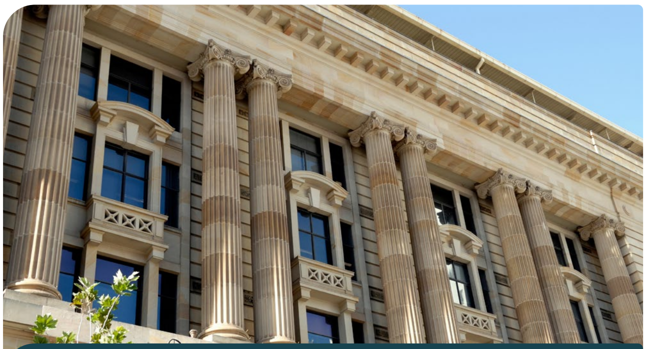
The largest sectoral contributors to weighted average carbon intensity in our Australian and international equity strategies are highlighted below:

Australian equities – Weighted Average Carbon Intensity contribution by sector



International equities – Weighted Average Carbon Intensity contribution by sector





Collaborative engagement – Australian banks and financing of the climate transition

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.

In 2024, U Ethical organised and is leading 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 2024, 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 and support investor on WBC and CBA, with other investors nominating to lead and support engagements with each of the banks.

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 in 2025.

We are engaging with banks on these issues based on the investment thesis that by gaining greater clarity on the banks' transition pathways 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.

Engagement activities

As part of our stewardship approach, we collaborate with industry initiatives and peer investors to advocate for a broader shift of capital markets and support evolving regulatory frameworks. This brings the weight of collective assets under management and share ownership to conversations with boards and senior management at companies in Australia and around the world. We belong to the following groups:

Climate Action 100+, a network of investors engaging with more than 100 of the most emissions-intensive listed companies around the world. We act as support investors to joint meetings with companies in our Australian Equities Trust portfolio. We also contribute to the research and development of thematic engagement topics such as creating frameworks for evaluating executive remuneration alignment to climate-related targets.

Investor Group on Climate Change (IGCC):
U Ethical joined the Investor Group on Climate Change (IGCC) in September 2024. IGCC is a network of Australian and New Zealand investors that collaborates to understand and respond to the risks and opportunities of climate change.

UN Principles of Responsible Investment (UN PRI)

Responsible Investment Association of Australasia (RIAA)

Proxy voting

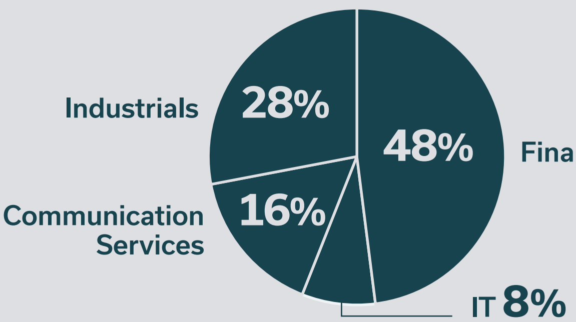
Our ethical investment approach mandates proxy voting. In our proxy voting, we also support shareholder resolutions that address climate risk, call for transparency and disclosure of emissions targets, and seek a higher aspiration for decarbonisation targets or climate transition plans. We disclose voting decisions on our website as part of our commitment to best-practice governance and transparency.

We have voted on 25 climate-related shareholder resolutions between 1 July 2022 and 30 June 2024. A breakdown of those votes is as follows:

Voting summary

Proposal Description	Proposal detail	Affected Companies
Report on Climate Change	Proposals asking for enhanced transparency on topics including: transition planning, climate lobbying, physical risks, climate risk safeguarding, just transition, and climate risk considerations in retirement plan options.	CBA, Westpac, ANZ, NAB, United Parcel Service and Alphabet
GHG Emissions	Proposals requesting the adoption of independently verified science-based GHG reduction targets	United Parcel Service
Link executive pay to social criteria	Report on integrating GHG emissions reduction targets into executive compensation	United Parcel Service
Climate Change Lobbying	Report on framework to assess company lobbying alignment with climate goals	Alphabet
Restriction on climate change-related analysis or actions	Report on risks arising from voluntary carbon-reduction commitments	United Postal Service
Restriction of fossil fuel financing	Approve business activities in line with the Paris Agreement	Nordea Bank

Climate-related shareholder resolution votes by industry sector



Votes by market

USA **13**
Australia **11**
Finland **1**

U Ethical votes

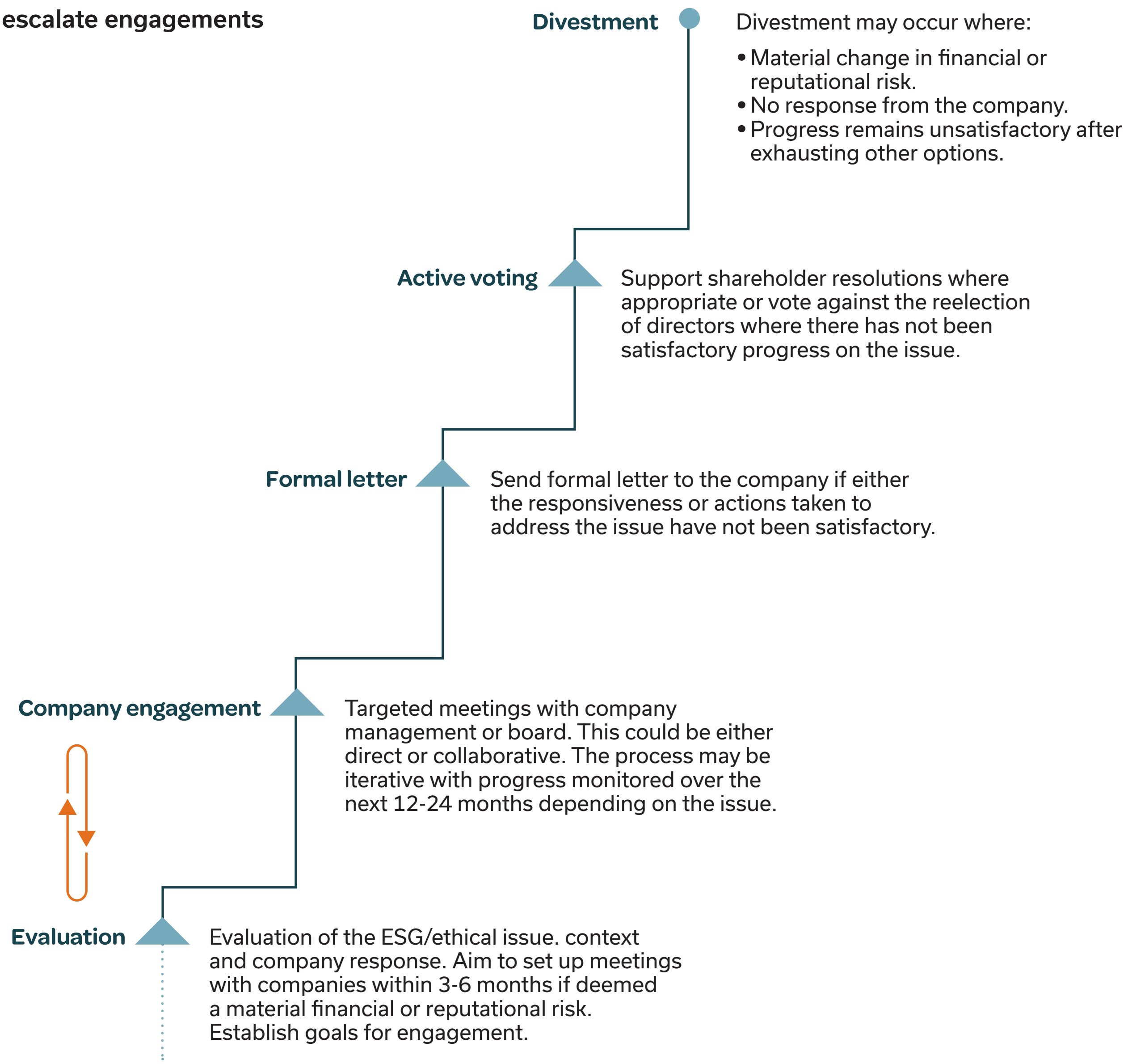
FOR **23**
AGAINST* **2**

* Votes against taken in conjunction with advice from ISS Governance's SRI policy

Stewardship escalation strategy

While we construct our portfolios to minimise climate risk and use the tools of stewardship to further press for action on climate risk, we also have at our disposal an escalation strategy if new climate risks are discovered in portfolio companies or where controversies arise. We firmly believe that an escalation strategy is a necessary part of responsible active ownership, up to and including divestment if necessary. Figure 1 outlines our general approach to stewardship escalation.

FIGURE 1 – **How we manage and escalate engagements**



Risk management

Consideration of climate change risks is fundamental to our assessment and evaluation of risk-return drivers in investment decision-making.

- U Ethical identifies climate change mitigation and resilience as highly material to the business and its key stakeholders.
- To identify investment risk, we use a range of carbon emissions and carbon intensity measures.
- U Ethical's fossil fuels divestment policy significantly lowers the carbon footprint metrics of our investment portfolios.
- We manage risk exposures by investing in better ESG-rated companies, favouring issuers with strong to medium management capability, emissions reduction commitments and robust targets, low carbon investments and/or decarbonisation plans.
- The investment risk assessment process aims to de-risk our exposures to climate change risk when considering new investment

Summary of U Ethical's climate risk management approach

	Corporate	Cash	Fixed income	Equities
Cash management trusts		●		
Enhanced income trust		●	●	
Diversified income trust			●	
Equities trusts				●
Growth portfolio			●	●
U Ethical	●			

Corporate	**Corporate**	U Ethical's Scope 1 and 2 emissions are minimal. However, it is exposed to the risks associated with Scope 3 indirect emissions inherent in managing cash, fixed income and equity investment portfolios and in purchasing from service and product providers.
Asset class / valuation risk	**Corporate**	Climate change risks and opportunities vary by asset class. They are heightened for longer duration securities, such as equities and longer-term fixed income.
	Cash	Cash, cash equivalents, and term deposits are short-duration, 'fixed dollar' assets that are not directly impacted by climate risks today. However, they may face indirect effects over time, such as changes in inflation, interest rates, and financial stability driven by climate-related factors.
	Fixed income	The duration of fixed income securities varies from short to long-term. Climate change risks are more relevant for longer-duration fixed income securities, but to a lesser degree for short duration securities.
	Equities	Climate change risks (particularly physical risks) and opportunities are heightened for equities given the longer-term investment time horizon.
Company / issuer risk	**Cash**	Climate change will increasingly pose a risk to the financial institutions that issue cash, cash equivalents and term deposits—generally authorised deposit-taking Institutions (ADIs) such as banks regulated by the Australian Prudential Regulation Authority. It is likely that the value of ADI assets (loans, securities and reserves) will be affected over time by the adverse effects of climate change.
	Fixed income	Climate change will increasingly pose a risk to the companies that issue fixed income securities. As the level and consistency of disclosure by issuers improves, it will enhance the assessment of climate risk and therefore the accuracy of credit quality analysis and security pricing.
	Equities	Climate change poses systemic risk to listed companies. Portfolio-level systematic risk is in part addressed through active stewardship, and in particular advocacy at both local and international level.
Management of climate risk **Exclusions**	**Corporate**	Companies and securities issued by companies involved in fossil fuel activities—coal mining, oil and gas production, power generation and equity ownership of the former —are excluded from U Ethical's investable universe where such activities are more than 5% of revenue or earnings.[1]
	Cash	All securities currently held by the trusts are issued by ADIs that comply with U Ethical's ethical investment policy and are therefore not excluded from the trusts' investable universe.
	Fixed income	Securities issued by companies involved in fossil fuel activities—coal mining, oil and gas production, power generation and equity ownership in any of the former—are excluded from the trusts' investable universe where such activities are more than 5% of revenue or earnings.
	Equities	Companies involved in fossil fuel activities—coal mining, oil and gas production, power generation and equity ownership in any of the former—are excluded from the trusts' investable universe where such activities are more than 5% of revenue or earnings.

[1] As of March 2025, U Ethical evolved its Ethical Investment Policy such that the fossil fuel criterion does not apply to fixed income securities where the issuance is aligned with the International Capital Market Association's (ICMA) Use of Proceeds Principles for green bonds and transition finance and is externally verified by a third-party provider.

Management of climate risk **Company / issuer and portfolio analysis**	**Corporate**	U Ethical uses MSCI ESG to monitor greenhouse gas emission trends, science-based targets, target coverage and progress on targets by companies and issuers. For equity portfolios, U Ethical specifically monitors Climate Value-at-Risk, which covers physical risks, transition risks and technology opportunities. As climate change risk disclosures continue to improve, U Ethical's ability to manage those risks, both at the security and portfolio level, will also improve.
	Cash	U Ethical uses MSCI ESG to monitor greenhouse gas emission trends, science-based targets, target coverage and progress on targets by issuers.
	Fixed income	U Ethical uses MSCI ESG to monitor greenhouse gas emission trends, science-based targets, target coverage and progress on targets by issuers.
	Equities	U Ethical uses MSCI ESG to monitor greenhouse gas emission trends, science-based targets, target coverage and progress on targets by companies. For equity portfolios, U Ethical specifically monitors Climate Value-at-Risk, which covers physical risks, transition risks and technology opportunities. Because of the exclusions in U Ethical's ethical investment policy, both the Australian Equities Trust and the International Equities Trust have substantially lower carbon footprints than their respective benchmarks.

Management of climate risk **Engagement and advocacy**	**Corporate**	U Ethical engages with portfolio companies and issuers on climate risk issues. This engagement may be carried out directly or collaboratively with investment peers, industry bodies or civil society organisations, such as The Investor Group on Climate Change, Climate Action100+, the UN Principles for Responsible Investment or the Responsible Investment Association of Australasia.
	Cash	U Ethical's engagement with cash issuers on climate risk issues (such as fossil fuel financing) is limited to where there is an overlap with holdings in equity portfolios. This engagement may be carried out directly or collaboratively with investment peers, industry bodies or civil society organisations, such as the Investor Group on Climate Change, the UN Principles for Responsible Investment or the Responsible Investment Association of Australasia.
	Fixed income	U Ethical's engagement with fixed income issuers on climate risk issues (such as fossil fuel financing) is limited to where there is an overlap with holdings in equity portfolios. This engagement may be carried out directly or collaboratively with investment peers, industry bodies or civil society organisations, such as the Investor Group on Climate Change, the UN Principles for Responsible Investment and the Responsible Investment Association of Australasia.
	Equities	U Ethical engages with companies on climate risk issues including greenhouse gas emission trends, science-based targets, target coverage and progress on targets. This engagement may be carried out directly or collaboratively with investment peers, industry bodies or civil society organisations, such as the Investor Group on Climate Change, Climate Action100+, the UN Principles for Responsible Investment and the Responsible Investment Association of Australasia.

In 2019, an externally conducted materiality assessment identified climate change mitigation and resilience as one of U Ethical's top three highly material themes. U Ethical divested from unconventional oil and gas in 2014. In 2019, we set a policy of divesting from companies that have more than 5% of revenue or equity ownership derived from coal mining, oil and gas production and power generation.[2]

The investable universe is defined by our core ethical exclusions, minimum ESG requirements, ESG controversies screening and preference for companies that derive revenue from Sustainable Impact solutions in line with the Sustainable Development Goals (SDGs).

Risks are varied and the following (non-exhaustive) list can include:

- Actual physical damage (whether chronic or acute) and economic impacts due to business damage and/or supply chain interruption;
- Health impacts related to extreme heat and humidity changes, air pollution and vector-borne diseases;
- The inability to suitably (i.e. in a timely manner and cost effectively) adapt both in financial and operational terms;
- The supply and demand changes from material and/or product substitution, cost increases, changes in consumer preference and regulation (e.g. carbon pricing); and
- Reputational risk due to perception/instances of greenwashing in which we do not act in accordance with our ethical investment policy and investment process, or where portfolio companies are judged to be acting in contravention of our policies and we do not take adequate action in our ladder of engagement escalation to address those risks.

Analysis of new equity holdings and issuers (and the review of existing ones) includes consideration of a low carbon transition management score, category and related quartile score, a review of the carbon footprint profile and opportunities in clean energy and clean-tech, energy efficiency, green buildings, and alternative products and services. We leverage MSCI ESG data, industry level analyses, broker research and think tanks' sectoral mappings to both mitigate and pre-empt portfolio risk exposure while aiming to identify issuers with greatest resilience and capacity to embrace a transition pathway.

The above also informs and helps prioritise U Ethical's engagement activities. The engagement focus is on Australian equity holdings, although there is a significant overlap with cash and fixed income issuers and we seek to enhance stewardship activities across portfolios where relevant.

Our climate-related Value-at-Risk exposures (transition and physical risks) are concentrated in a few sectors: materials, transportation, telecommunication services, health care and equipment and pharmaceuticals.

As covered in the strategy section, all ethical and ESG considerations, including climate risk, inform U Ethical's engagement activities with portfolio companies in order to improve companies' and issuers' carbon data transparency and disclosures and encourage consideration of climate scenario alignment of business models, operations and climate risks related to supply chains.

We have introduced an annual review to update our risk assessment framework, incorporating the latest research and trends on climate-related elements.

We will continue to evolve our investment strategy as climate models, research and related data evolve. We also strive to align with best practice approaches as they emerge. In line with this, U Ethical aims to expand its capabilities to define net zero targets and be able to analyse and report on complete climate scenario analyses and where possible, on historical trends across Scope 1, 2 and 3 emissions.

[2] As of March 2025, U Ethical evolved its Ethical Investment Policy such that the fossil fuel criterion does not apply to fixed income securities where the issuance is aligned with the International Capital Market Association's (ICMA) Use of Proceeds Principles for green bonds and transition finance and is externally verified by a third-party provider.

Targets and metrics

We measure:

- Carbon emissions, historical carbon emissions trends, carbon emissions intensity/$M invested and weighted average carbon intensity (WACI)
- Low carbon transition (LCT) management score and low carbon transition quartile scores, and
- The Climate Value-at-Risk (CVaR) and assess the concentration of risks in sectors and the exposure to physical and transition risks at a company and issuer level.

As part of the ESG profile reviews of companies and issuers, we assess the ESG risk exposures and related capabilities to manage both social and environmental key issues material to their sub-Global Industry Classification Standard (GICS). Active engagement focuses on human rights and labour management concerns, business governance and behaviour, environmental stewardship, and climate change risk.

For companies and issuers where climate risk has not been identified as financially material, we seek disclosures and consideration of climate risk in accepted warming scenarios within the relevant industry and best-practice. In proxy voting for equity holdings, we support resolutions that call for greater transparency and climate risk mitigation and adaptation strategies.

At present, we are reviewing the extent to which climate scenario analyses impact U Ethical's trusts and portfolios. We also review banks' financed emissions to identify areas of engagement via stewardship, seeking bank strategy alignment to the 1.5° Paris Agreement target.

As described in the strategy section, our fundamental rating includes a 25% weighting to an ESG score, which is comprised of three quantitative factors.

U Ethical's fossil fuel exclusions significantly lower the carbon footprint of our equity trusts compared to their benchmarks.

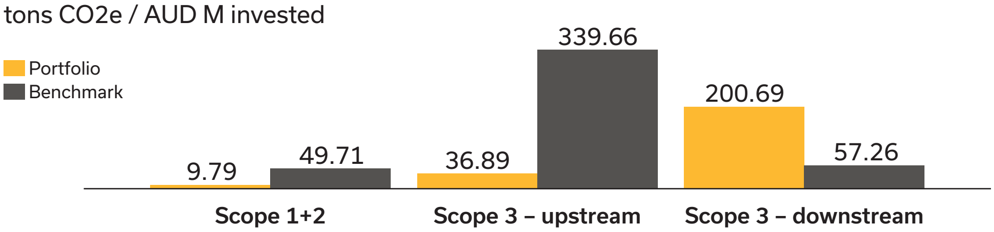
Australian Equities Trust – Retail

General information

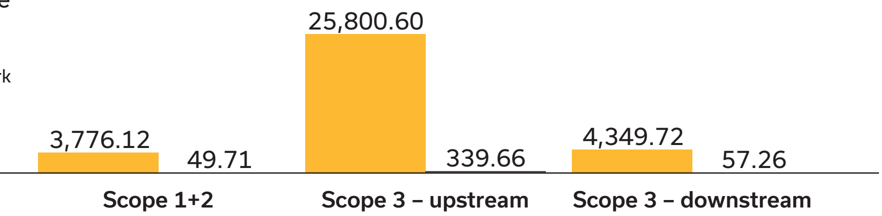
	Name	Date holdings
Portfolio	Australian Equities Trust – Retail	31 December 2024
Benchmark	ASX 300 Index	31 December 2024

Carbon Footprint on EVIC

Financed Carbon Emissions
tons CO2e / AUD M invested



Total Financed Carbon Emissions
tons CO2e



Source: MSCI

Top 10 Contributors – Weighted Average Carbon Intensity

	Carbon Intensity (Scope 1+2)	Low Carbon Transition Management Score
LYNAS RARE EARTHS LTD	360.82	5.8
DIGICO INFRASTRUCTURE REIT	1200.00	
FORTESCUE LTD	152.28	6.9
CLEANAWAY WASTE MANAGEMENT	498.91	6.3
SANDFIRE RESOURCES LTD	195.27	7.5
HMC CAPITAL LTD	378.26	6.3
TELSTRA GROUP LIMITED	53.39	7.0
CSL LTD	35.25	6.3
DEXUS	189.95	6.3
CHARTER HALL	171.42	6.3

Source: MSCI, proxy data has been used for Digico Infrastructure REIT due to the unavailability of data

Climate Value at Risk (CVaR)

	1.5° REMIND Orderly	1.5° REMIND Disorderly	2° REMIND Orderly
Transition Risk	-7.6%	-9.3%	-1.2%
Technology Opportunities	1.0%	1.4%	0.2%
Policy Risk (Scope 1,2,3)	-8.6%	-10.6%	-1.4%
Physical Risk (Average)	-1.0%	-1.0%	-1.5%
Aggregated Climate VaR	**-8.6%**	**-10.3%**	**-2.7%**

Source: MSCI

Contribution by Sector – Weighted Average Carbon Intensity

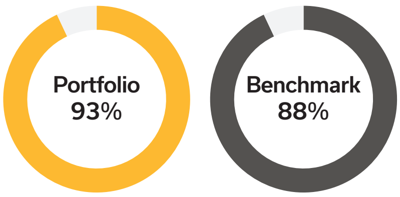
		Weight
	Materials	38.47%
	Real Estate	25.32%
	Industrials	12.32%
	Financials	8.88%
	Communication Services	5.08%
	Other	9.93%

Source: MSCI, proxy data has been used for Digico Infrastructure REIT due to the unavailability of direct data

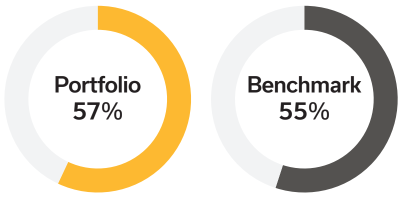
Company Transition Plans

GHG emission reduction targets

Targets on any scope
(Scope 1, Scope 2 or Scope 3)

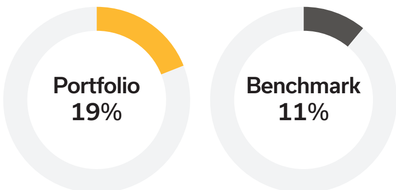


Targets across all scopes
(Scope 1, Scope 2 and Scope 3)

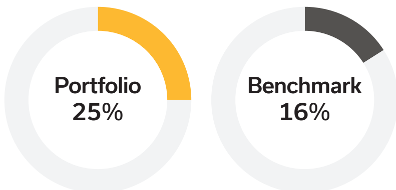


Science Based Targets initiative (SBTi)

Company has committed
to adopt targets



Targets approved by SBTi



Source: MSCI

Implied Temperature Rise (ITR)

	Portfolio	Benchmark
Implied Temperature Rise	2.4°C	3.3°C
Implied Temperature Rise Categories		
1.5°C Aligned	28%	19%
2°C Aligned	13%	17%
Misaligned	40%	33%
Strongly Misaligned	19%	31%

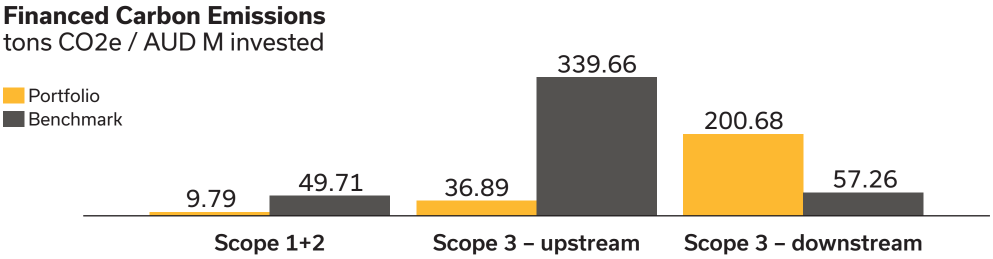
Source: MSCI

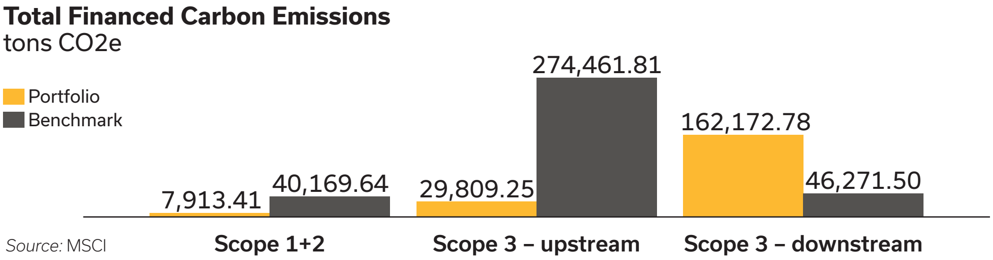
Australian Equities Trust – Wholesale

General information

	Name	Date holdings
Portfolio	Australian Equities Trust – Wholesale	31 December 2024
Benchmark	ASX 300 Index	31 December 2024

Carbon Footprint on EVIC





Source: MSCI

Top 10 Contributors – Weighted Average Carbon Intensity

	Carbon Intensity (Scope 1+2)	Low Carbon Transition Management Score
LYNAS RARE EARTHS LTD	360.82	5.8
DIGICO INFRASTRUCTURE REIT	1200.00	
FORTESCUE LTD	152.28	6.9
CLEANAWAY WASTE MANAGEMENT	498.91	6.3
SANDFIRE RESOURCES LTD	195.27	7.5
HMC CAPITAL LTD	378.26	6.3
TELSTRA GROUP LIMITED	53.39	7.0
CSL LTD	35.25	6.3
DEXUS	189.95	6.3
CHARTER HALL	171.42	6.3

Source: MSCI, proxy data has been used for Digico Infrastructure REIT due to the unavailability of data

Climate Value at Risk (CVaR)

	1.5° REMIND Orderly	1.5° REMIND Disorderly	2° REMIND Orderly
Transition Risk	-7.6%	-9.3%	-1.2%
Technology Opportunities	1.0%	1.4%	0.2%
Policy Risk (Scope 1,2,3)	-8.6%	-10.6%	-1.4%
Physical Risk (Average)	-1.0%	-1.0%	-1.5%
Aggregated Climate VaR	**-8.6%**	**-10.3%**	**-2.7%**

Source: MSCI

Contribution by Sector – Weighted Average Carbon Intensity

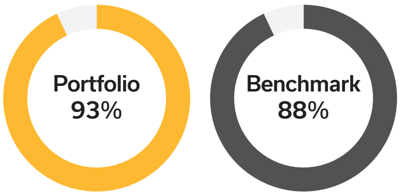
	Weight
Materials	38.39%
Real Estate	25.42%
Industrials	12.3%
Financials	8.88%
Communication Services	5.08%
Other	9.92%

Source: MSCI, proxy data has been used for Digico Infrastructure REIT due to the unavailability of direct data

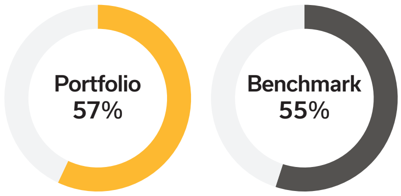
Company Transition Plans

GHG emission reduction targets

Targets on any scope
(Scope 1, Scope 2 or Scope 3)

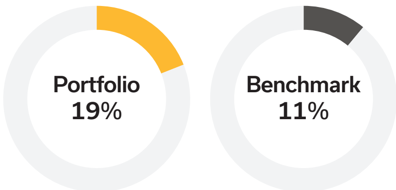


Targets across all scopes
(Scope 1, Scope 2 and Scope 3)

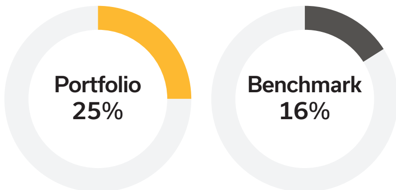


Science Based Targets initiative (SBTi)

Company has committed
to adopt targets



Targets approved by SBTi



Source: MSCI

Implied Temperature Rise (ITR)

	Portfolio	Benchmark
Implied Temperature Rise	2.4°C	3.3°C
Implied Temperature Rise Categories		
1.5°C Aligned	28%	19%
2°C Aligned	13%	17%
Misaligned	40%	33%
Strongly Misaligned	19%	31%

Source: MSCI

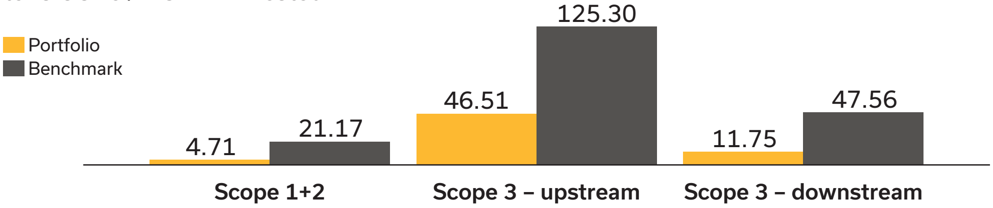
International Equities Trust – Wholesale

General information

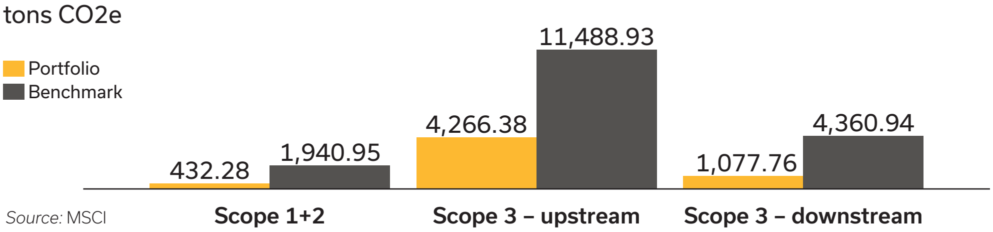
	Name	Date holdings
Portfolio	International Equities Trust – Wholesale	31 December 2024
Benchmark	MSCI World ex Australia Index	31 December 2024

Carbon Footprint on EVIC

Financed Carbon Emissions
tons CO2e / AUD M invested



Total Financed Carbon Emissions
tons CO2e



Source: MSCI

Top 10 Contributors – Weighted Average Carbon Intensity

	Carbon Intensity (Scope 1+2)	Low Carbon Transition Management Score
TAIWAN SEMICONDUCTOR MANUFACTURING	167.29	3.7
UNION PAC CORP	382.07	6.5
MICROSOFT CORP	38.80	7.9
DANONE	56.11	8.4
BT GROUP	26.07	7.2
UNITED PARCEL SVC INC	167.66	7.2
ALPHABET INC	11.40	6.5
TJX COS INC NEW	13.20	2.0
GSK PLC	21.24	6.3
HOME DEPOT INC	13.25	7.3

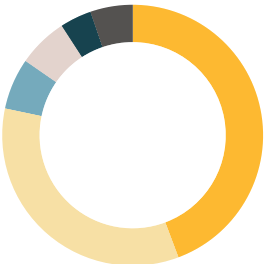
Source: MSCI

Climate Value at Risk (CVaR)

	1.5° REMIND Orderly	1.5° REMIND Disorderly	2° REMIND Orderly
Transition Risk	-3.2%	-4.3%	-0.5%
Technology Opportunities	0.2%	0.3%	0.0%
Policy Risk (Scope 1,2,3)	-3.4%	-4.6%	-0.6%
Physical Risk (Average)	-0.5%	-0.5%	-0.8%
Aggregated Climate VaR	**-3.7%**	**-4.8%**	**-1.3%**

Source: MSCI

Contribution by Sector – Weighted Average Carbon Intensity



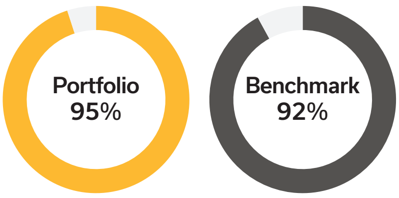
	Weight
Information Technology	44.28%
Industrials	34.03%
Consumer Staples	6.33%
Communication Services	6.20%
Health Care	3.91%
Other	5.25%

Source: MSCI

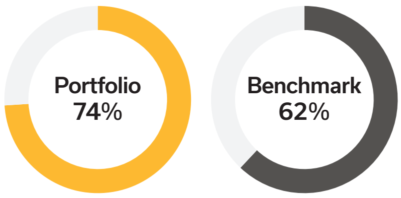
Company Transition Plans

GHG emission reduction targets

Targets on any scope
(Scope 1, Scope 2 or Scope 3)

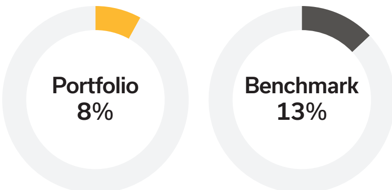


Targets across all scopes
(Scope 1, Scope 2 and Scope 3)

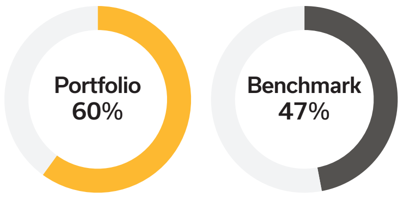


Science Based Targets initiative (SBTi)

Company has committed
to adopt targets



Targets approved by SBTi



Source: MSCI

Implied Temperature Rise (ITR)

	Portfolio	Benchmark
Implied Temperature Rise	2.2°C	2.5°C
Implied Temperature Rise Categories		
1.5°C Aligned	46%	33%
2°C Aligned	14%	26%
Misaligned	31%	27%
Strongly Misaligned	9%	14%

Source: MSCI

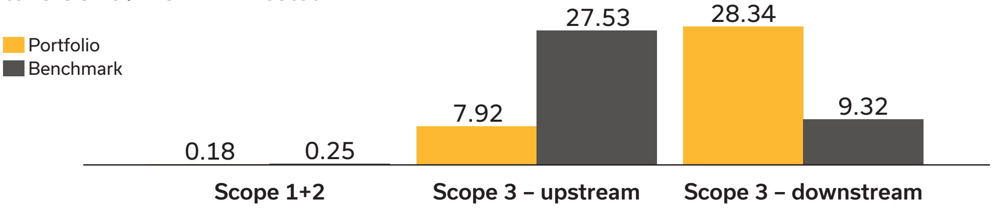
Diversified Income Trust – Wholesale

General information

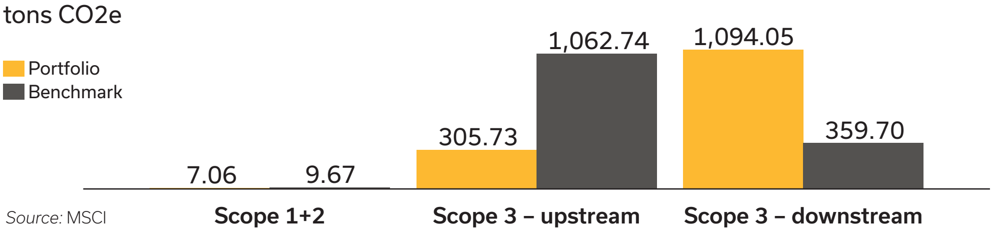
	Name	Date holdings
Portfolio	Diversified Income Trust – Wholesale	31 December 2024
Benchmark	Solactive Hybrid Index	6 December 2024

Carbon Footprint on EVIC

Financed Carbon Emissions
tons CO2e / AUD M invested



Total Financed Carbon Emissions
tons CO2e



Source: MSCI

Top 10 Contributors – Weighted Average Carbon Intensity

	Carbon Intensity (Scope 1+2)	Low Carbon Transition Management Score
COMMONWEALTH BANK OF AUSTRALIA	2.53	5.3
NATIONAL AUSTRALIA BANK	1.91	6.4
ANZ GROUP HOLDINGS LIMITED	2.52	5.3
WESTPAC BANKING CORPORATION	2.20	5.5
MACQUARIE GROUP LIMITED	1.14	2.4
SUNCORP GROUP LIMITED	1.52	6.3

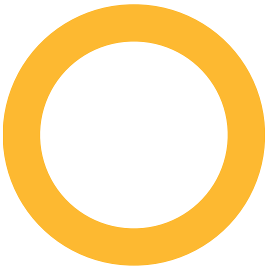
Source: MSCI

Climate Value at Risk (CVaR)

	1.5° REMIND Orderly	1.5° REMIND Disorderly	2° REMIND Orderly
Transition Risk	0.0%	0.0%	0.0%
Technology Opportunities	0.0%	0.0%	0.0%
Policy Risk (Scope 1,2,3)	0.0%	0.0%	0.0%
Physical Risk (Average)	0.0%	0.0%	0.0%
Aggregated Climate VaR	**0.0%**	**0.0%**	**0.0%**

Source: MSCI

Contribution by Sector – Weighted Average Carbon Intensity



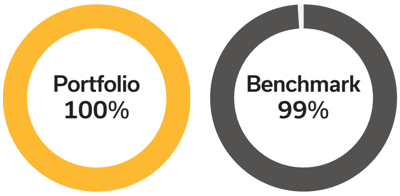
	Weight
Financials	100.00%

Source: MSCI

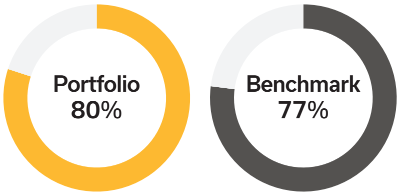
Company Transition Plans

GHG emission reduction targets

Targets on any scope
(Scope 1, Scope 2 or Scope 3)



Targets across all scopes
(Scope 1, Scope 2 and Scope 3)



Source: MSCI

Implied Temperature Rise (ITR)

	Portfolio	Benchmark
Implied Temperature Rise	2.2°C	2.1°C
Implied Temperature Rise Categories		
1.5°C Aligned	19%	26%
2°C Aligned	4%	5%
Misaligned	55%	49%
Strongly Misaligned	22%	20%

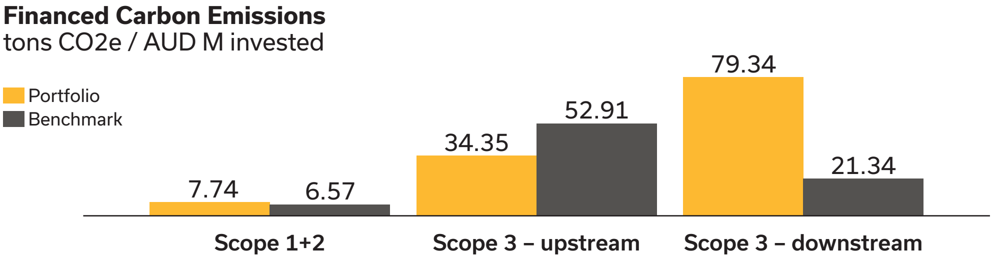
Source: MSCI

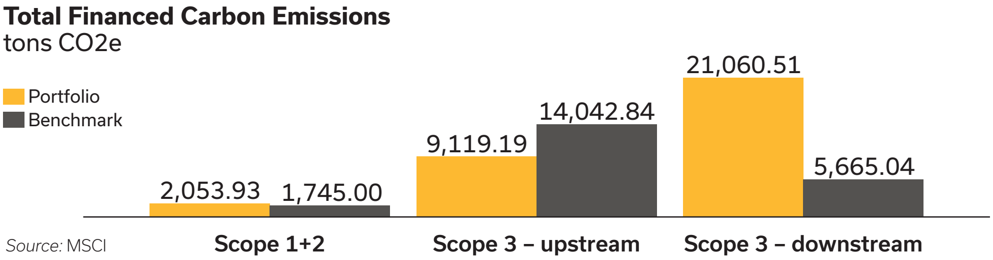
Enhanced Income Trust – Wholesale

General information

	Name	Date holdings
Portfolio	Enhanced Income Trust – Wholesale	31 December 2024
Benchmark	Composite Benchmark	31 December 2024

Carbon Footprint on EVIC





Source: MSCI

Top 10 Contributors – Weighted Average Carbon Intensity

	Carbon Intensity (Scope 1+2)	Low Carbon Transition Management Score
ENBW INTL FINANCE BV	307.77	7.3
CHARTER HALL LWR PTY LIMITED	171.42	6.3
COLES GROUP TREASURY PTY LTD	49.22	3.3
TOYOTA FINANCE AUSTRALIA	18.16	5.9
TELSTRA GROUP LIMITED	53.39	7.0
WESTCONNEX FINANCE COMPANY PTY LTD	68.80	7.0
WESFARMERS LTD	46.48	6.0
TRANSURBAN QUEENSLAND FINANCE PTY	68.80	7.0
MERCURY NZ LTD	128.12	8.6
GAIF BOND ISSUER PTY LIMITED	27.45	4.7

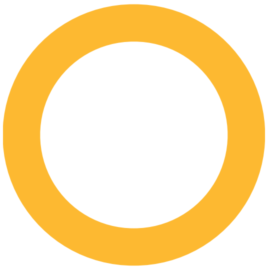
Source: MSCI

Climate Value at Risk (CVaR)

	1.5° REMIND Orderly	1.5° REMIND Disorderly	2° REMIND Orderly
Transition Risk	-0.2%	-0.3%	0.0%
Technology Opportunities	0.3%	0.4%	0.1%
Policy Risk (Scope 1,2,3)	-0.5%	-0.7%	0.0%
Physical Risk (Average)	-0.1%	0.4%	-0.1%
Aggregated Climate VaR	**-0.3%**	**0.1%**	**-0.1%**

Source: MSCI

Contribution by Sector – Weighted Average Carbon Intensity



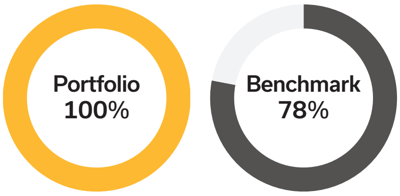
	Weight
Financials	100.00%

Source: MSCI

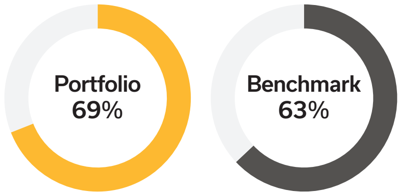
Company Transition Plans

GHG emission reduction targets

Targets on any scope
(Scope 1, Scope 2 or Scope 3)

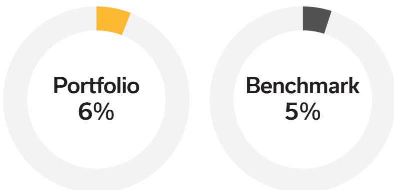


Targets across all scopes
(Scope 1, Scope 2 and Scope 3)

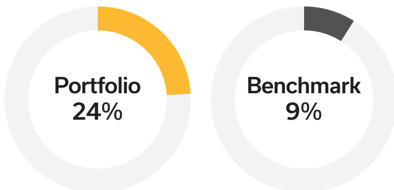


Science Based Targets initiative (SBTi)

Company has committed
to adopt targets



Targets approved by SBTi



Source: MSCI

Implied Temperature Rise (ITR)

	Portfolio	Benchmark
Implied Temperature Rise	2.1°C	2.5°C
Implied Temperature Rise Categories		
1.5°C Aligned	19%	18%
2°C Aligned	28%	12%
Misaligned	36%	50%
Strongly Misaligned	18%	20%

Source: MSCI

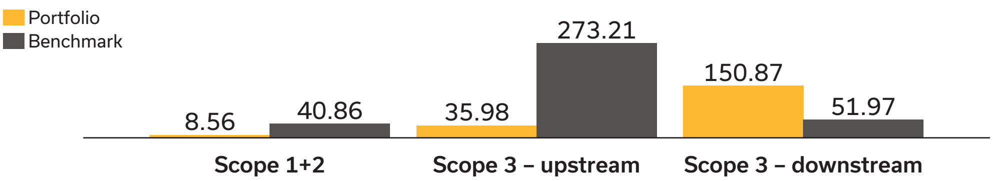
Growth Portfolio

General information

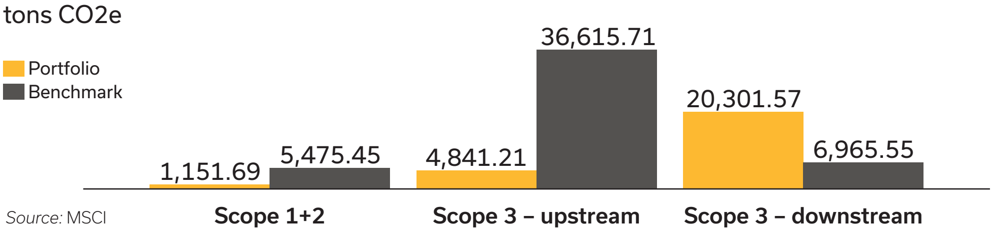
	Name	Date holdings
Portfolio	Growth Portfolio	31 December 2024
Benchmark	Composite Benchmark	31 December 2024

Carbon Footprint on EVIC

Financed Carbon Emissions
tons CO2e / AUD M invested



Total Financed Carbon Emissions
tons CO2e



Source: MSCI

Top 10 Contributors – Weighted Average Carbon Intensity

	Carbon Intensity (Scope 1+2)	Low Carbon Transition Management Score
DIGICO INFRASTRUCTURE REIT	1200.00	
LYNAS RARE EARTHS LTD	360.82	5.8
FORTESCUE LTD	152.28	6.9
CLEANAWAY WASTE MANAGEMENT LTD	498.91	6.3
HMC CAPITAL LTD	378.26	6.3
SANDFIRE RESOURCES LTD	195.27	7.5
DEXUS	189.95	6.3
TELSTRA GROUP LIMITED	53.39	7.0
CHARTER HALL	171.42	6.3
CSL LTD	35.25	6.3

Source: MSCI, proxy data has been used for Digico Infrastructure REIT due to the unavailability of data

Climate Value at Risk (CVaR)

	1.5° REMIND Orderly	1.5° REMIND Disorderly	2° REMIND Orderly
Transition Risk	-5.9%	-7.2%	-0.9%
Technology Opportunities	0.7%	1.0%	0.2%
Policy Risk (Scope 1,2,3)	-6.6%	-8.2%	-1.1%
Physical Risk (Average)	-0.8%	-0.7%	-1.3%
Aggregated Climate VaR	**-6.6%**	**-7.9%**	**-2.2%**

Source: MSCI

Contribution by Sector – Weighted Average Carbon Intensity

	Weight
Materials	31.48%
Real Estate	31.40%
Industrials	12.22%
Financials	8.61%
Communication Services	4.55%
Other	11.74%

Source: MSCI, proxy data has been used for Digico Infrastructure REIT due to the unavailability of data

Company Transition Plans

GHG emission reduction targets

Targets on any scope (Scope 1, Scope 2 or Scope 3)

Targets across all scopes (Scope 1, Scope 2 and Scope 3)

Science Based Targets initiative (SBTi)

Company has committed to adopt targets

Targets approved by SBTi

Source: MSCI

Implied Temperature Rise (ITR)

	Portfolio	Benchmark
Implied Temperature Rise	2.4°C	3.2°C
Implied Temperature Rise Categories		
1.5°C Aligned	26%	18%
2°C Aligned	14%	17%
Misaligned	43%	39%
Strongly Misaligned	17%	26%

Source: MSCI

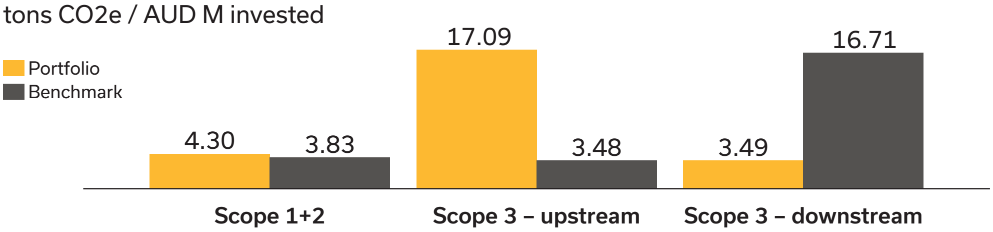
Property Trust

General information

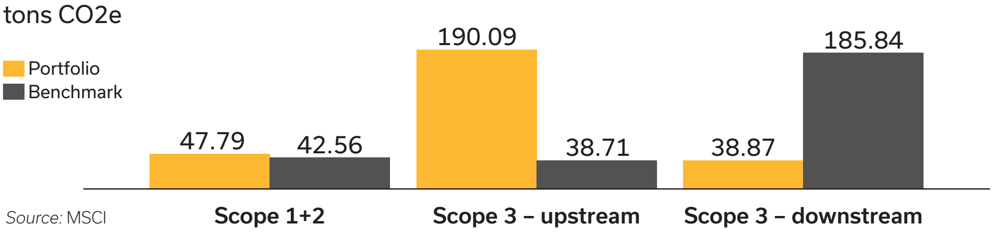
	Name	Date holdings
Portfolio	Property Trust	31 December 2024
Benchmark	ASX 300 Real Estate Index	31 December 2024

Carbon Footprint on EVIC

Financed Carbon Emissions
tons CO2e / AUD M invested



Total Financed Carbon Emissions
tons CO2e



Source: MSCI

Top 10 Contributors – Weighted Average Carbon Intensity

	Carbon Intensity (Scope 1+2)	Low Carbon Transition Management Score
SCENTRE GROUP LIMITED	108.74	7.0
DIGICO INFRASTRUCTURE REIT	1200.00	
GOODMAN GROUP	27.45	4.7
CHARTER HALL	171.42	6.3
DEXUS	189.95	6.3
VICINITY CENTRES	141.15	6.3
HMC CAPITAL LTD	378.26	6.3
GPT GROUP	55.45	7.0
MIRVAC GROUP	65.95	6.3
HOMECO DAILY NEEDS REIT	79.96	4.0

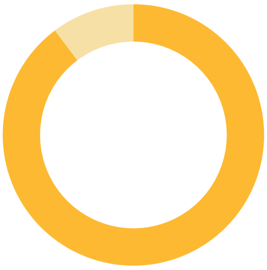
Source: MSCI, proxy data has been used for Digico Infrastructure REIT due to the unavailability of data

Climate Value at Risk (CVaR)

	1.5° REMIND Orderly	1.5° REMIND Disorderly	2° REMIND Orderly
Transition Risk	-1.3%	-1.8%	-0.3%
Technology Opportunities	0.1%	0.2%	0.0%
Policy Risk (Scope 1,2,3)	-1.4%	-2.0%	-0.3%
Physical Risk (Average)	-0.6%	-0.7%	-0.9%
Aggregated Climate VaR	**-1.9%**	**-2.4%**	**-1.2%**

Source: MSCI

Contribution by Sector – Weighted Average Carbon Intensity



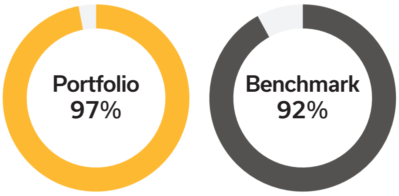
		Weight
	Real Estate	89.75%
	Financials	10.25%

Source: MSCI, proxy data has been used for Digico Infrastructure REIT due to the unavailability of data

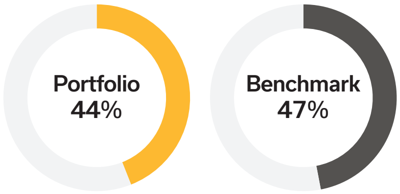
Company Transition Plans

GHG emission reduction targets

Targets on any scope
(Scope 1, Scope 2 or Scope 3)

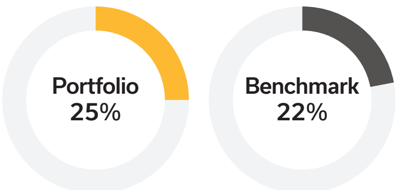


Targets across all scopes
(Scope 1, Scope 2 and Scope 3)

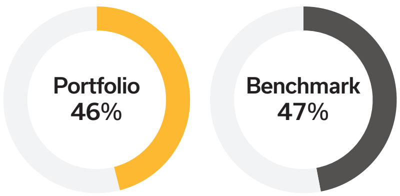


Science Based Targets initiative (SBTi)

Company has committed
to adopt targets



Targets approved by SBTi



Source: MSCI

Implied Temperature Rise (ITR)

	Portfolio	Benchmark
Implied Temperature Rise	3.1°C	3.1°C
Implied Temperature Rise Categories		
1.5°C Aligned	0%	0%
2°C Aligned	0%	4%
Misaligned	95%	92%
Strongly Misaligned	5%	4%

Source: MSCI

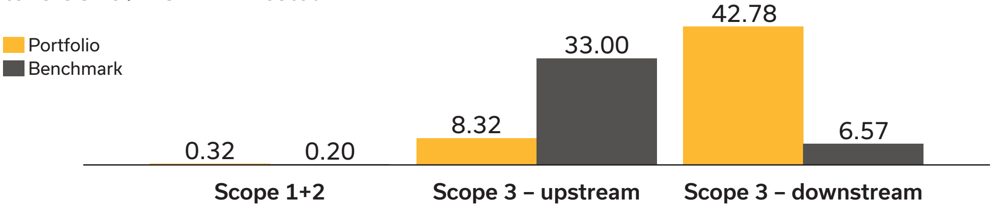
Cash Management Trust

General information

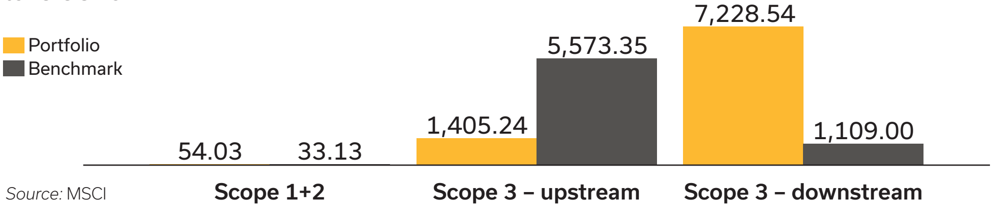
	Name	Date holdings
Portfolio	Cash Management Trust	31 December 2024
Benchmark	ASX 300 Banks Index	31 December 2024

Carbon Footprint on EVIC

Financed Carbon Emissions
tons CO2e / AUD M invested



Total Financed Carbon Emissions
tons CO2e



Source: MSCI

Top 10 Contributors – Weighted Average Carbon Intensity

	Carbon Intensity (Scope 1+2)	Low Carbon Transition Management Score
BENDIGO BA	5.38	1.0
NATIONAL AUSTRALIA BANK LTD	1.91	6.4
WESTPAC BANKING CORPORATION	2.20	5.5
BANK OF QUEENSLAND LTD	1.74	1.9

Source: MSCI, proxy data has been used for Digico Infrastructure REIT due to the unavailability of data

Company Transition Plans

GHG emission reduction targets

Targets on any scope
(Scope 1, Scope 2 or Scope 3)

Targets across all scopes
(Scope 1, Scope 2 and Scope 3)

Source: MSCI

Implied Temperature Rise (ITR)

	Portfolio	Benchmark
Implied Temperature Rise	2.5°C	2.2°C
Implied Temperature Rise Categories		
1.5°C Aligned	24%	19%
2°C Aligned	8%	1%
Misaligned	24%	60%
Strongly Misaligned	43%	20%

Source: MSCI

U Ethical

Level 6, 130 Lonsdale Street,
Melbourne VIC 3000

Website www.uethical.com
Email info@uethical.com
Telephone 1800 996 888

investing with purpose