

**Australian
Ethical**



ETHICAL STEWARDSHIP POLICY

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1 Purpose and Scope

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

Investor stewardship is one-way we can directly have real world influence. Investor stewardship leverages the capital our members have entrusted to us to influence investee companies, the economy and society. At Australian Ethical Investment responsibility for investor stewardship is shared between the Investment team and the Ethics Research team but with different objectives and targets. See the table below. This policy sets out the governance for investor stewardship conducted by the Ethics Research team for Australian Ethical Investment Limited and all Group subsidiaries (AEI). We call this Ethical stewardship.

Investment team’s Investor stewardship	Ethics Research team’s Ethical Stewardship
Stewardship is focused on lowering the risks and improving the returns of individual holdings and the portfolio. It is targeted at investee companies.	Stewardship is focused on reducing the negative and increasing the positive impacts of companies and achieving systemic change at an economy or society-wide scale. It can be targeted at investee companies but its remit is much broader, including companies outside the portfolio, other investors, governments including regulators, standard-setting bodies, industry associations and other organisations.

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

2 Reference

This policy has been written with reference to:

- CFA’s exposure draft ESG disclosure standards (May 2021)
- UNPRI’s guidance on voting on shareholder resolutions ‘Making voting count’
- UNPRI’s high level active ownership framework 2.0
- The Croatan Institute’s IE2 initiative ‘Evaluating the Impact of Shareholder Engagement in Public Equity Investing’ (https://croataninstitute.org/wp-content/uploads/2021/05/IE2_Report.pdf)

3 Obligations and Accountabilities

We commit to pursue ethical stewardship opportunities to reduce the negative and increase the positive impacts of our investments and influence systemic change at an economy or society-wide scale to help address systemic challenges and move towards a future where people, animals and the planet prosper, consistent with the aims of our Ethical Charter.

To meet this commitment we will:

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

Strategic ethical stewardship plan

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

The ethical stewardship plan should set out strategic priority areas of focus; the rationale for their inclusion; the key people responsible; objectives; a plan for who and how we will seek to influence on the issue; and measures of effectiveness.

How we will prioritise our ethical stewardship activities

Priorities for strategic ethical stewardship should be set having regard to the following:

We focus on issues related to the three pillars of the Ethical Charter:

People, Animals and the Environment

Where the issues are systemic, widespread, long term, or create an existential challenge	Or	Where we can help reduce suffering, protect the voiceless, vulnerable or irreplaceable
Where either		
We are in a position to influence e.g. as an investor; as a subject matter expert, because of our unique perspective; or because the topic is under-attended	Or	We see a need to address harm caused or contributed to by the companies in our portfolio or we see an opportunity to help enhance the positive impacts of companies in our portfolio

And that are ideally:

- important to existing and prospective customers
- the subject of existing media interest with space for our voice or where we can generate such interest
- able to be efficiently acted on, such as where there are synergies with our ethical screening and impact measurement, where we can leverage previous work or existing relationships, where we can leverage the Foundation partnerships or where there are synergies with people powered advocacy campaigns (customer team)

Developing a plan for who and how we will influence

Who (targets)	How (methods)
<p>Our targets for ethical stewardship may include externally managed funds, companies, their employees, their boards, industry groups, other investors, research providers, government including regulators and particularly where policies impact the actions of the private sector, politicians, consumers, research providers, and bodies that develop voluntary business standards including standards of disclosure.</p> <p>Targets for ethical stewardship programs will be selected having regard to:</p> <ul style="list-style-type: none"> - which targets, individually or collectively, can create systemic change or have the greatest impact; - target size and capacity to implement change; - importance of issue vs burden on the target of responding - our ability to influence the target - the impact on AEI's external relationships 	<p>All options on the table such as: private or collaborative engagements; catalysing dialogues with other investors or other stakeholders; coordinating with civil society; participating in multi-stakeholder initiatives; acquiring nominal advocacy holdings (subject to the Ethical screening of investments policy); filing shareholder resolutions, voting (on shareholder resolutions, against directors, against remuneration reports); other AGM activism including asking questions at AGMs; campaigns against recalcitrant directors; nominating enlightened directors; public policy consultations and submissions; asking companies to be a public voice for policy; open letters to companies; FOI requests; threatening or supporting litigation; submitting an Amicus brief; developing benchmarks; participating in industry initiatives and events; divestment and divestment campaigns (subject to the Ethical Screening of Investments Policy).</p> <p>Methods for ethical stewardship programs will be selected having regard to:</p> <ul style="list-style-type: none"> - which methods, individually or in combination, will best influence the target/s - the preference for engagement before escalating to more public or punitive forms of influence (such as open letters or divesting) - AEI's values, reputation and brand - the impact on AEI's external relationships - the resources required

Ad hoc ethical stewardship

We may also engage in ad hoc ethical stewardship where:

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

having regard to

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

Process for engaging with investee companies

For both strategic and ad hoc ethical stewardship, we will discuss with the relevant investment analyst before we engage. Divestments are subject to the Ethical screening of investments policy.

Third party ethical stewardship

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

External managers

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

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

Voting

Proxy voting is carried out by the Investment team in accordance with the Proxy Voting policy. However the Ethics Research team:

- is responsible for:
 - o deciding whether to file or support shareholder resolutions where they relate to ethical issues (in accordance with the Charter Practice Shareholder Resolutions policy), and
 - o deciding how to vote on a 'say on climate' resolution.

In both cases this should be in consultation with the relevant investment analyst and the Chief Investment Officer; and

- may make suggestions or recommendations for how the investment team ought to vote where ethical issues could impact voting on other resolutions (e.g. where our engagement on lack of diversity may impact how we vote for re-election of directors or on remuneration reports).

Tracking and reporting on ethical stewardship activities

Given the volume of ethical stewardship activities and the resources involved in keeping a record, we may not track all activities. We wish to avoid a scenario where the burden of tracking and reporting deters us from engaging in ‘light touch’ ethical stewardship activities (such as supporting an investor statement).

We will internally track strategic stewardship activities and, where we consider it meaningful, ad hoc ethical stewardship activities on a quarterly basis, recording the following information (where applicable):

Target/s	Proactive or passive involvement	Issue	Sector	Independent or collaborative, and partners involved	Tools used	Baseline	Long-term objectives	Actions taken and outcomes
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- number of engagements (this need not be exact e.g. over xxx)
- number of proactive engagements (see below how we distinguish proactive and passive engagements)
- proxy voting (the Chief Investment Officer has responsibility for recording and reporting our proxy voting under the Proxy Voting Policy)
- progress towards objectives of strategic stewardship activities

Other metrics we may consider:

- % or number of companies engaged that subsequently committed to change as evidence of effectiveness
- % of portfolio engaged
- sectors we engaged
- themes of engagements

In reporting, we will distinguish between proactive and passive engagements. The following should be used to help guide an assessment of whether an engagement is active or passive.

Proactive	Passive
We write to a company asking questions, raising concerns, stating our position, putting forward specific ask. Others (e.g. other investors or NGOs) may support this engagement.	We support an initiative by adding our logo to letters or statements. The engagements are conducted by others and beyond agreeing to use of our logo or inclusion of our FUM in total investor support, we have no involvement.
We have a call or meeting with a company asking questions, raising concerns, stating our position, putting forward specific ask. We may have these meetings or calls with others (e.g. other investors or NGOs).	We vote at an AGM in support of an ethical issue (e.g. shareholder resolution, voting against re-election of director, voting against rem report).
We publicly call-out a company’s actions.	
We publicly declare our intention to vote at a specific AGM in support of an ethical issue	
We publicly divest.	

We contribute to developing the content of engagement by others e.g. identifying issues for engagement, or follow up questions, or helping draft statements, letters or shareholder resolutions.	
We use a nominal advocacy holding to vote in favour of shareholder resolutions.	
We help file a shareholder resolution.	
We ask a question or make a comment at an AGM on an ethical issue.	

Measures of effectiveness

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

In developing measures of effectiveness, we will:

- preference measures that relate to real world outcomes over internal policy and procedures
- supplement long term measures with interim measures to ensure accountability over longer term initiatives
- not prioritise a good story over real action, for example we will not preference activities that have clear measures of effectiveness, over more important activities that may be more difficult to measure
- seek to be transparent, including when others have contributed to our successes or we cannot necessarily attribute real world outcomes to our activities, and where our activities have failed to produce an outcome

Monitoring the evolution of investor stewardship

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

4 Exceptions

Exceptions to this policy must be approved by the Head of Ethics Research, or their delegate.

5 Point of contact

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

6 Review cycle

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