First Sentier Investors

# Responsible Investment Report 2023

# Contents






# 01 | CEO foreword

## Welcome to our Responsible Investment Report 2023, which outlines how we have applied our responsible investment principles to our investments over the course of the year.

In 2023, we operated against a backdrop of big, systemic and interconnected challenges.

We felt the impacts of climate change and experienced the world's hottest ever October, September, August and July during 2023.[1]

In July, Walk Free's Global Slavery Index 2023 painted a picture of the factors driving the growth of slavery, with climate change, conflict, COVID-19 and consumerism playing a devastating role in this modern scourge, which now affects approximately 50 million people globally.

Armed conflict remains a sad reality in many parts of the world, as the Russia-Ukraine war continued and the Israel-Palestine conflict escalated rapidly, contributing to vulnerable populations at risk of exploitation.

In December, the United Nations Climate Change Conference (COP28) grappled with the complex challenge of finding consensus on global climate change action, agreed on the need to transition away from fossil fuels and explicitly acknowledged the importance of action on protecting nature and biodiversity in delivering the goals of the Paris Agreement.

It's clearer than ever that the big issues we face cannot be neatly separated. We need co-ordinated action on all of them.

Investors have a role to play, among many other stakeholders. We believe that capital allocation decisions have the potential to drive real world outcomes. With this in mind, we take our role as stewards of our clients' capital seriously, invest responsibly and engage actively.

I hope you find this report illuminates how we think about these big issues, and how we are taking action on them.

Mark Steinberg
**Chief Executive Officer**

1 Hawkins, Ed. (2024). WMO confirms that 2023 smashes global temperature record

# A snapshot of our progress

50%
reduction in weighted average **carbon intensity** for **listed equities** portfolio in 5 years

42%
reduction in weighted average **carbon intensity** for **fixed income** portfolio over 5 years

58%
portion of AUM[1] that has been included in our initial **TNFD[2]-aligned scoping assessment**

29%
The average proportion of **women on company boards** in listed equities portfolios globally

**Portfolio carbon footprint**
**Listed equities:**
47% lower than benchmark (aggregated)
**Fixed income:**
53% lower than benchmark (aggregated)

**All listed equities**
weighted average carbon intensity (Scope 1+2/$m sales) 149.9t$CO_2$e
40%
lower than benchmark (aggregated)

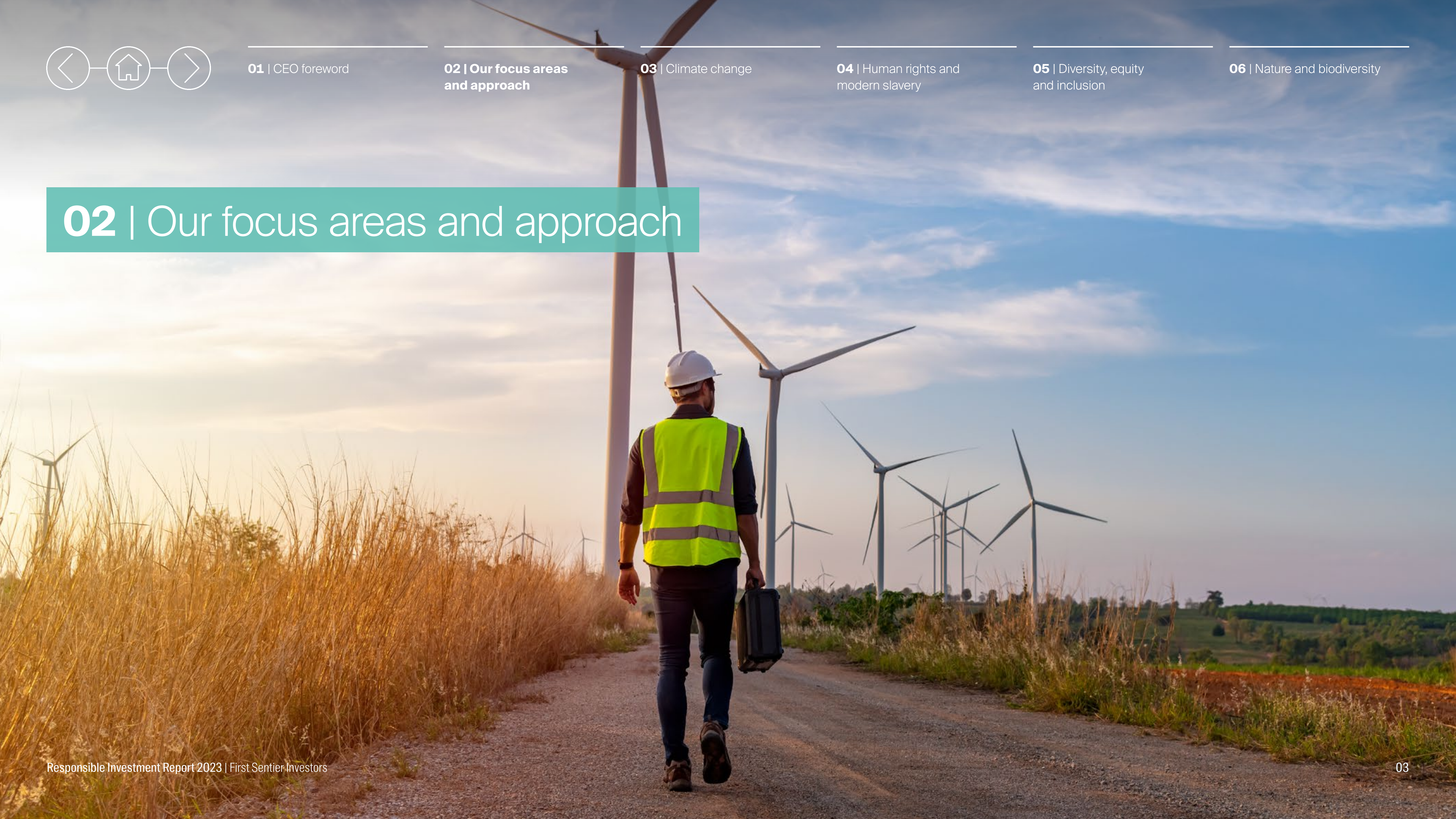
2
**core sector metrics** – recommended by the TNFD[2] – disclosed

**IAST APAC** comprises investors with
$9.4
trillion in AUM

Five year trend data from 31 December 2018 to 31 December 2023. The data set out above are estimates based on data sourced by First Sentier Investors. This data is current as at 31 December 2023. It is based on information and representations sourced from third parties (including portfolio companies), that may not be externally audited, which may ultimately prove to be inaccurate. No assurance is given or liability accepted regarding the accuracy, validity or completeness of this data and no reliance should be placed on it by any third party.

1 Assets under management.
2 TNFD is Taskforce on Nature-related Financial Disclosures.

# 02 | Our focus areas and approach



# 02 | Our focus areas

## First Sentier Investors is an active investment manager with a diverse range of individual and autonomous investment teams with a shared commitment to responsible investment (RI).

Approaches to RI differ between asset classes, industries, and individual investments. However, at a firm level, we are primarily focused on four areas: climate change; human rights and modern slavery; diversity, equity and inclusion; and nature and biodiversity.

### Climate change

We believe that society must drastically reduce greenhouse gas emissions if we are to avoid the worst consequences of the climate crisis. We are playing an active role in the transition to a low-carbon economy by managing investment risks, identifying opportunities and driving change through our stewardship approach.

### Human rights and modern slavery

An estimated 50 million people are living in situations of modern slavery globally,[1] while global events like armed conflict continue to threaten millions of people's human rights. Companies that fail to manage their exposure to these issues will face an increasing level of scrutiny, in addition to legal, reputational and financial implications. We aim to take a proactive approach to addressing human rights and modern slavery with the companies we invest in, where appropriate.

### Diversity, equity and inclusion

Diversity, equity and inclusion are the keys to building fair and equitable organisations, institutions and communities. Many of our investment teams assess diversity as part of their company analysis, and seek to identify markers of inclusive cultures.

### Nature and biodiversity

Nature is the foundation of our economy, society and life itself, and biodiversity supports all life on our planet. However, biodiversity is eroding at a pace that is severely damaging the natural ecosystems that provide us with food, water and clean air. As long-term investors, we believe biodiversity loss and land degradation is financially material, and reducing this is crucial to achieving a net zero and climate resilient future. Protecting nature is therefore in our own and our clients' best interests.

This approach allows us to concentrate our resources more effectively and improve the firm's visibility across these areas. However, each of these areas present large, complex and interconnected problems, and we cannot solve these issues alone.

To contribute to a sustainable economy and society, we collaborate with our clients, peers and broader stakeholders. We do this by participating in industry forums; actively engaging with investee companies, regulators and policy makers; and publishing thought leadership, all with the aim of contributing to positive change.

Engagement and stewardship continue to be a major focus for the firm and for individual investment teams, and we are signatories to the Stewardship Codes in the UK, Australia and New Zealand. Examples of engagements are outlined in features within this report, and further details of stewardship activities can be found in our annual Stewardship Reports on our website.

*This approach allows us to concentrate our resources more effectively and improve the firm's visibility across these areas.*

1 Walk Free. (2023). Global Slavery Index.

## Given our diverse investment teams and their investment processes, the specifics of how each team implements their approach to RI varies, however all teams share the following ESG investment beliefs:

- As a global investment manager, we have the opportunity and responsibility to allocate our clients' capital in a way that drives positive social and environmental outcomes within the context of our investment strategies.
- Incorporating environment, social and governance (ESG) considerations as sources of long-term risk and opportunity into our investment approach helps us make better decisions, leading to stronger long-term investment performance for our clients.
- As active investors, we can create better outcomes on behalf of our clients and broader society.

The RI strategy is underpinned by the following expectations at firm and investment team levels.

*Whilst each investment team has its own distinct investment process, they all share a commitment to RI and stewardship.*

### Our firm expectations

- To engage in public policy debates and collaborate through industry initiatives
- To communicate openly and clearly with our clients regarding ESG issues
- To hold ourselves as a business to the same standards as those we expect of the companies we invest in
- To foster a culture that supports principles of stewardship and responsibility
- To adhere to all relevant regulatory requirements and industry codes

### Our investment team expectations

- To assess and monitor on an ongoing basis our investments for relevant ESG risks and opportunities
- To engage in an active dialogue with companies and entities that we invest in
- To document engagement activities and any issues raised to be followed up and reviewed periodically
- To develop an engagement strategy with escalation points where a company is not recognising or addressing ESG concerns
- To exercise our right to vote whenever possible
- To measure and report on the ESG outcomes of our investments as evidence of our approach to RI
- To not invest in certain companies on ethical grounds[2]

2 A list of our exclusions is available on our website.

## Asian Fixed Income

The team believes that ESG risks influence companies' ability to service their long-term debt obligations, and therefore ESG assessments form an integral part of the team's research process. ESG risks are identified as part of the bottom-up credit research process. Asian issuers, particularly those in more carbon intensive economies, also face both physical and transition risks that factor as an important feature of any ESG assessment. Against a fast-evolving ESG landscape in Asia, the team emphasises both qualitative and quantitative research in arriving at an ESG assessment. This research is based on a combination of sources such as company engagements, company reports and third-party research. Material risks are identified by credit analysts as part of their fundamental analysis, and their assessment of issuers' resiliency and ability to adapt against identified ESG risks determine investment decisions across portfolios, both in terms of security selection and portfolio positioning.

## Australian Equities Growth

ESG research is carried out by the Australian Equities Growth team because it believes that ESG issues have the potential to materially impact earnings and valuations and, therefore, generate returns above benchmark. As fundamental investors, the team seeks to identify material financial and non-financial ESG issues and incorporate these into stock analysis. When relevant, the team incorporates ESG issues into financial models and analyst stock ratings.

The team believes that ownership and engaging with company management and boards for change is more effective than exclusions, and team members regularly meet with companies to discuss their approach to ESG issues. These meetings have a structured engagement agenda that includes climate change, companies' relationships with traditional owners, modern slavery, and governance.

## Australian Emerging Companies

The team seeks to generate strong long-term performance, with consideration of ESG issues where relevant. Where available, ESG information is considered, for both companies under research and investee companies, in order to provide an understanding of the financial and reputational impact ESG has on businesses.

## Australian Equity Income

The team works in partnership with other investment teams within the firm. As part of this approach, the team draws upon the analyst research from various investment teams, which includes the identification of any relevant ESG issues.

## Australian Small and Mid Cap Companies

As part of the team's investment process, each entity considered for investment is evaluated against six key criteria. One of these criteria is sustainability, which may include environmental, social or governance factors according to the sector and/or industry, as well as being influenced by entity-specific details. The emphasis placed by the team on a particular ESG factor in the assessment of the sustainability criterion is based on the team's assessment of the extent to which that factor is likely to have an impact on the returns of the relevant security over the long-term.

The team uses a proprietary methodology in assessing and monitoring entities in respect of the Sustainability criterion and relies on internal qualitative research, which includes active company engagement. ESG matters are frequently raised with senior management, including board members, during the team's engagement with entities.

## Fixed Income, Global Credit and Short-term Investments

The team believes that ESG issues can have a significant bearing on default risk, and has observed that historically, poor corporate and regulatory governance have been recognised contributors in most corporate failures. Consequently, ESG risks are identified as part of the team's bottom-up credit research process to help manage default risks in bond portfolios. Every credit the team owns has an internal credit rating, and the analysts' ESG assessments influence internal credit ratings, which in turn influence sizing and portfolio construction decisions. The ESG assessment is also a factor in determining whether portfolios participate in a new bond issue.

## Global Listed Infrastructure

The team views ESG issues as fundamental to infrastructure companies, given they have significant service obligations and moral accountability to the communities in which they operate. As long-term investors, the team takes an active approach to proxy voting to convey their views to boards and management on important ESG topics including board composition, remuneration packages and corporate governance. It participates in industry groups such as Climate Action 100+ to help deal with difficult issues such as energy transition and the path to net zero. Through company engagement, the team seeks to better understand risk in the portfolio, highlight areas for potential improvement, encourage disclosure on ESG issues, and support companies that are making progress in this area.

## Global Property Securities

Responsible investment has been deeply ingrained in the team's culture for over a decade. ESG considerations are directly embedded into two parts of its investment process. Firstly, the team aims to mitigate ESG risks in the initial screening of its investment universe. Secondly, ESG factors directly feed into its valuation methodology, whereby securities with better ESG scores achieve higher intrinsic valuations and are therefore favoured in its stock selection process. While the team uses third-party and in-house research, direct engagement with companies remains the most important source for ESG information, given the team's intricate understanding of the global property securities sector.

## AlbaCore Capital Group

AlbaCore believes companies that operate with appropriate ESG standards are more likely to deliver long-term earnings and fundamentally increase value. As a credit investor, AlbaCore's approach is risk-based and the materiality of potential or existing risks is taken into consideration for each investment. As part of the investment due diligence process, the team reviews ESG topics in relation to each proposed investment and these factors are considered by the Investment Committee. AlbaCore excludes certain industries based on revenue thresholds as part of its negative screening process (which varies depending on product type) and analyses each investment under its proprietary ESG risk framework.

## FSSA Investment Managers

FSSA believes everyone in the team has a responsibility to think about ESG issues during their daily decision-making, and that there is no reason to separate the ESG and sustainability elements from its research process. FSSA believes these issues are intertwined and a complete assessment of quality is necessary. FSSA considers the evaluation of ESG factors as part of their risk-mitigation approach. However, they do not apply a check-box approach as the materiality of specific ESG factors will differ from company to company and from time to time.

FSSA meets with companies and their management teams regularly. Each meeting is an opportunity to improve their understanding of the business and its sustainability objectives, and they frequently engage on material ESG issues. With this information, the team aims to improve the quality of its research, strengthen relationships with the management and improve the positioning of investee companies. FSSA believes that a company's direction of travel is most important, and thus it closely tracks each company's response to ESG concerns.

## Igneo Infrastructure Partners

The team's strategy is to build a portfolio of mature, operating infrastructure assets that it believes can deliver stable returns over the long-term for investors. The team has long recognised that managing ESG risks and opportunities is key to protecting and enhancing value. Investment decisions, the asset management approach, and strategic analyses are therefore all examined in the context of ensuring long-term sustainability, and ESG considerations are integrated throughout the investment process. The team has the advantage of being able to engage directly with its portfolio of companies via board representation and workshops with management, giving it the opportunity to provide input into ESG targets, develop initiatives and help drive cultural change.

## RQI Investors

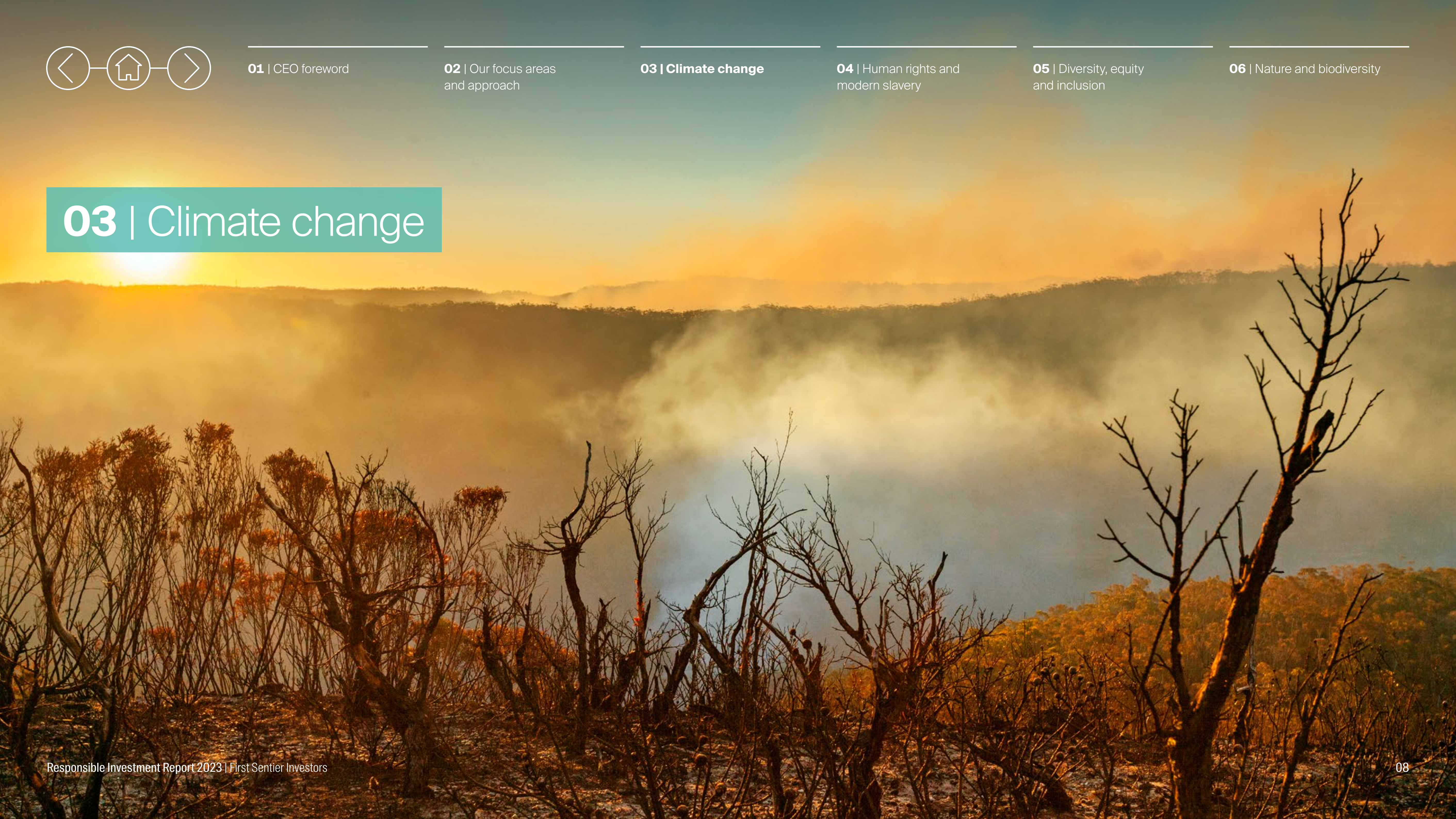
Responsible investment and stewardship principles are important to the team's approach to investment management. The team integrates ESG considerations through a 'four pillar' approach based on: risk controls (mainly through carbon reduction controls); using ESG data to identify sources of returns in excess of the relevant benchmark; stewardship activities including voting and engagement; and exclusions, as per First Sentier Investor's exclusion policy[1] and/or client mandates.

## Stewart Investors

Stewart Investors' first strategy was launched in 1988 and its first dedicated sustainability strategy was launched in 2005. The team manages long-only equity portfolios investing in Asia (including and excluding Japan), Global Emerging Markets, Europe (including and excluding the UK), the Indian Subcontinent and Worldwide. Stewart Investors strategies aim to achieve long-term capital appreciation by investing in high quality companies which both contribute to, and benefit from, sustainable development. A focus on sustainability is a natural extension of having a long-term investment horizon. It is integral to how the team thinks about risk and return, and is embedded in the investment process through bottom-up analysis and a focus on the quality and sustainability attributes of every company. The team seeks to address sustainability concerns and issues and improve sustainable outcomes by investing in companies achieving positive social and environmental outcomes, focusing on company stewardship and sound governance, avoiding businesses linked to harmful activities, and engaging and voting for change.

1 A list of our exclusions is available on our website.

# 03 | Climate change



# 03 | Climate change

## Why is it important to us?

At COP28 in Dubai, the final statement said that while the Paris Agreement has driven near-universal climate action, much more needs to be done to avoid the worst effects of a changing climate.

As noted in the statement, "[we] are not yet collectively on track towards achieving the purpose of the Paris Agreement and its long-term goals". As a result, we must "accelerate action in this critical decade".[1]

The overarching message of the event was that the decisions we are taking now will influence how successfully we meet the Paris Agreement goals. We need to rapidly transition to a lower-carbon world. As investors, we play a key part in the many strands of activity now being undertaken to keep global warming to below 1.5 degree Celsius. We also face significant risks to portfolios if we fail to act, as extreme weather events and nature loss can significantly affect the companies we invest in.

*We must "accelerate action in this critical decade".*[1]

## What is First Sentier Investors doing?

We are playing an active role in the transition to a low-carbon economy by identifying opportunities and seeking to drive change through our stewardship approach.

Greenhouse gas (GHG) emissions data is crucial to decarbonising the economy, as we cannot change what we cannot measure. Easier tracking of emissions data is a central plank of our organisation's ESG data strategy, and one outcome of the project to improve our ESG data is that most investment teams can now access a wide range of climate change metrics captured in easy-to-use dashboards.

We have expanded the breadth of portfolio climate disclosures and now provide additional factors (such as net zero alignment) and cover fixed income – both corporate and sovereign issuers – with the aim of adding sub-sovereign[2] issuers in 2024.

A key part of governance is the firm's internal investment monitoring and reporting, and we have added scenario and net zero alignment analysis to our capabilities in this area.

We are active in a number of collaborative engagements including Climate Action 100+, Investor Group on Climate Change (IGCC), and the Glasgow Financial Alliance for Net Zero (GFANZ). Our Global Head of Responsible Investment, Kate Turner, was appointed to the Net Zero Asset Managers initiative Advisory Group towards the end of 2023. As a firm, we have contributed to company engagements and shared experiences and insights with peers, as part of these initiatives.

Advocacy on climate policy was a major focus during 2023, with highlights below:

- In Australia, the Federal Government launched reforms including a Safeguard Mechanism for high emitters and the creation of a Net Zero Authority. It also opened up consultations on a proposed Climate-related Financial Disclosures Bill, and Australian Sustainable Finance Strategy. First Sentier Investors made submissions on these, both as a firm and as part of industry bodies.
- Members of both the RI and the leadership teams actively participated in engagements with policymakers in Parliament House, Canberra.
- We contributed to a proactive investor-led discussion paper on sectoral decarbonisation pathways that was presented to the cabinet of the Australian Prime Minister.
- Our fixed income teams joined the Principles for Responsible Investment (PRI) pilot on sovereign and sub-sovereign engagement for Australia.
- We attended an investor-led engagement meeting with the Japanese Ministry of Finance and Ministry of Economy, Trade and Industry held at the PRI in Person 2023 Conference in Tokyo.
- We made a submission to the Hong Kong Exchange on proposals for the Enhancement of Climate-related Disclosures under the ESG Governance Framework.
- We were signatories to a UK Sustainable Investment and Finance Association (UKSIF) letter that was sent to the UK Prime Minister regarding the nation's Net Zero Commitments, and concerns that the Government is looking to water down its commitments on emissions reduction.

1 United Nations. (2023). COP28 Outcome of the first global stocktake.
2 Sub-sovereign entities refer to the Australian States and Territories (New South Wales, Victoria, Tasmania, Western Australia, South Australia, Queensland, the Australian Capital Territory and the Northern Territory)

At a firm level, in 2023, we continued to focus on implementing our net zero plans, as set out on our website. Key to this is the development of a Net Zero Alignment model, based on the Institutional Investors Group on Climate Change (IIGCC) Net Zero Investment Framework (NZIF), allowing investment teams to monitor and track their progress against portfolio coverage targets, and to identify companies for engagement.

This year, we reported on our progress in the 2023 Climate Change Action Plan update, which provides a detailed breakdown of how we are meeting these goals.

At an investment team level, we undertook the following activities:

- For the Global Listed Infrastructure team, the energy transition has been at the forefront of its engagement with companies. Transition risk represents one of the largest climate-related risk for listed infrastructure companies, as the world moves away from fossil fuels and towards lower-carbon sources of energy. However, energy transition also represents a substantial opportunity. Attempts to reduce carbon emissions are having significant implications for the way in which electricity is generated, transmitted and distributed. More than 90% of the portfolio's emissions come from utilities, so this is where the team spends the most time on analysis and engagement. In 2023, the team engaged with a number of companies in its portfolio on topics including transition plans and the impact on their workforces.
- The Australian Equities Growth team completed two detailed research projects on climate-related topics: the quality and integrity of Australian carbon credits to inform its assessment of companies' net zero commitments; and the merits of carbon capture and storage (CCS), including the costs and merits of the technology. This research is helping the team assess the place of CCS in companies' transition plans. The team also developed its own net zero model to assess portfolio companies' degree of alignment to the transition; participated in Climate Action 100+ initiatives; and developed stock specific engagements with tailored climate change objectives. These engagements have been designed to encourage improvements in companies' transition plans.

## Reporting on progress

**Figure 1.**

This table shows the following key carbon metrics for all investment teams,[3] as recommended by the Task Force on Climate-Related Financial Disclosures (TCFD)

| | Listed Equities | Fixed Income | Direct Infrastructure |
|---|---|---|---|
| Coverage (AUM)[4] | 93.3% | Corporate fixed income[5]: **82.9%**<br>Sovereign debt: **89.8%** | 91.0% |
| Weighted average carbon intensity ($tCO_2e$/\$m sales OR $tCO_2e$/\$m PPP-adjusted GDP for sovereign) | 149.9 | Corporate fixed income: **132.6**<br>Sovereign debt: **359.4** | 511.0 |
| Difference weighted average carbon intensity vs benchmark (aggregated) | (40.3%) | Corporate fixed income: **(58.3%)**<br>Sovereign debt: **(3.9%)** | n/a |
| Exposure to fossil fuel companies[6] (%) | 10.1% | 5.5% | 29.8% |
| Relative carbon footprint ($tCO_2e$/\$m invested) | 61.85 | 37.87 | 103 |
| Difference carbon footprint vs benchmark | (47.0%) | (53.4%) | n/a |
| Total Carbon Emissions ($tCO_2e$, Scope 1+2) | 5,262,901 | 353,731 | 1,387,769 |
| Scope 1 ($tCO_2e$) | 4,104,621 | 320,061 | 1,302,076 |
| Scope 2 ($tCO_2e$) | 1,158,280 | 33,670 | 85,693 |
| Scope 3 ($tCO_2e$) | 45,688,263 | 2,303,199 | 3,931,750 |

Source: First Sentier Investors, ISS ESG, Sustainalytics. Data as at 31 December 2023

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3 Excluding AlbaCore Capital Group. Its data has not yet been fully integrated into firm-wide reporting since completion of its acquisition took place in November 2023. AlbaCore Capital Group has plans in progress to issue its TCFD report.

4 Assets under management

5 Corporate fixed income coverage excludes ineligible portions of AUM, including asset-backed securities, investment funds, derivatives, NCDs and FX.

6 We have updated our fossil fuel metric to show the portion of exposure to companies with any involvement in the fossil fuel industry, as per the SFDR definition of fossil companies.

**Relative carbon footprint:** the carbon emissions of a portfolio per US \$m invested. Scope 1 and 2 emissions are allocated to investors based on an enterprise value ownership approach i.e. if an investor owns 10% of a company's total enterprise value including cash (EVIC), then they own 10% of the company and therefore 10% of the company's emissions. This is then normalised by portfolio value.

**Weighted average carbon intensity:** portfolio weighted average of each company's carbon intensity (Scope 1 & 2) per US\$m sales.

**Total carbon emissions:** this metric measures the absolute carbon emissions associated with a portfolio (Scope 1 and 2) expressed in $tCO_2e$. Scope 1 and 2 emissions are allocated to investors based on an enterprise value ownership approach (as with the carbon footprint).

**Fossil fuel companies:** this indicator measures the portion of exposure to companies involved in fossil fuels, as defined by Sustainalytics, including (i) exploration, mining, extraction, distribution or refining of hard coal and lignite; (ii) exploration, extraction, distribution (including transportation, storage and trade) or refining of liquid fossil fuels; and (iii) exploration, extraction or distribution (including transportation, storage and trade) of gaseous fossil fuels.

Carbon footprint reports for each investment team (with the exception of AlbaCore Capital Group[3]), and an explanation of how each measure is calculated, are available on the First Sentier Investors website.

**Note:** Portfolio emissions and carbon footprint are now based off Enterprise Value as a proxy for company size, as recommended in the most recent Partnership for Carbon Accounting Financials (PCAF) Standard.

The benchmark is an aggregated weighted average benchmark, using benchmarks associated with each portfolio and weighted by each portfolio's portion of the total assets under management.

## Challenges

Access to reliable data continues to be a challenge. An issue we are grappling with is definitions: we still need more convergence of terminology around net zero ambitions, target setting and the credibility of transition plans, in order to properly assess the quality of a company's ambitions.

Another challenge is the growing array of climate-related disclosures required for different markets, including the United Kingdom, New Zealand and Australia. While there are broad similarities, there are also some meaningful differences, as well as different reporting periods. For a global entity with requirements across different jurisdictions, we are working to manage these differences.

## Future plans

Plans for the firm are outlined in the 2023 Climate Action Plan. We are also looking to introduce targets for the short-term investments and cash teams after our constructive discussions with IIGCC.

Feature

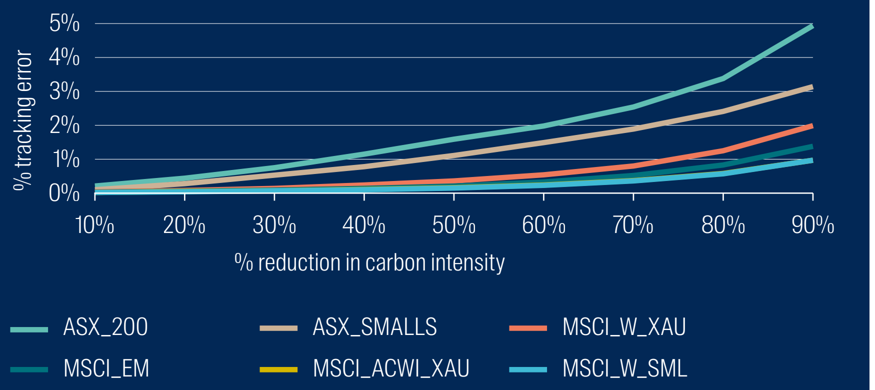
## RQI Investors – Reducing carbon without sacrificing returns: is it possible?

While many investors and asset owners are looking to decarbonise their portfolios, they are often concerned about the impact of such a move on their returns profile. Quantitative team, RQI Investors, considered this in a research paper entitled: *'Reducing carbon intensity in portfolios: better news than you think'*.

Carbon intensity provides insights into the carbon efficiency of a company, showing how much carbon an organisation emits per unit of output. The research measured carbon intensity by considering emissions output (Scope 1 and 2)[1] for every million dollars of sales, to come up with a carbon intensity score for each company. It took a range of capitalisation-weighted benchmarks, and reduced carbon intensity by 10%, 20%, and more.[2] The study then measured the realised tracking error and returns of these carbon-reduced portfolios.

The analysis found that small moves towards lower carbon intensity in well-diversified portfolios can result in carbon intensity reductions with minimal addition of tracking error. For global portfolios (which have many stocks) this leads to surprisingly small tracking error for quite large reductions in carbon intensity. For example, a 40% reduction in carbon intensity relative to the index (in this case, MSCI All Companies World Index, ex-Australia) would only have generated a tracking error of 10 basis points per annum when averaged across the whole period covered by the analysis (December 2008 to June 2022).[3] This result is a little surprising, but reflects optimal portfolio construction, in the sense that there is rotation within sectors (from high carbon intensity stocks to low carbon intensity stocks) rather than between sectors. This is accomplished without greatly affecting expected portfolio risk or return, at least for moderate levels of carbon intensity reduction. The team is now implementing these insights in their portfolios going forward.

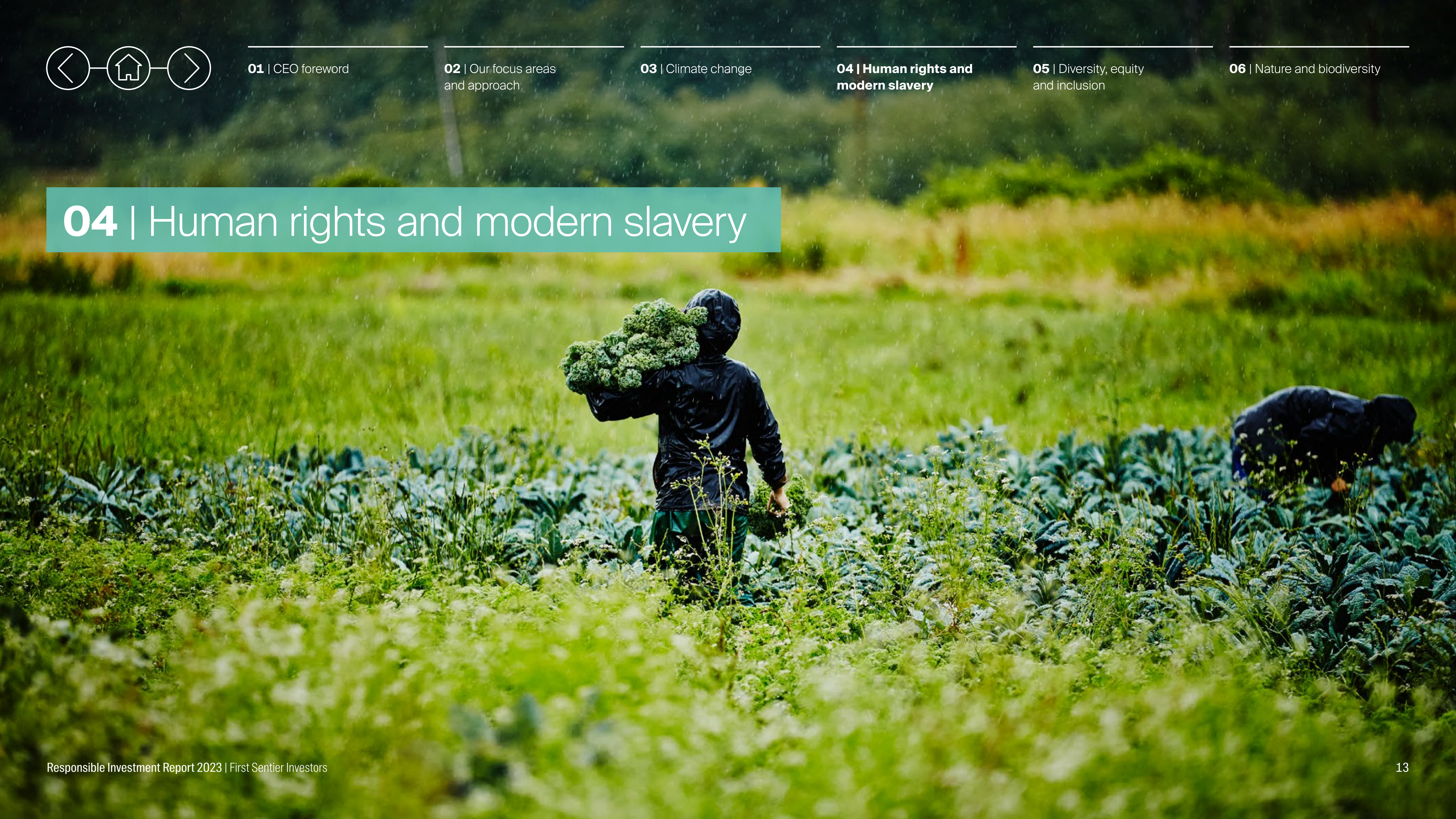
**Figure 2. Ex post annualised tracking error against cap weighted benchmarks (December 2008 to June 2022) as carbon intensity is reduced**




Source: FactSet, MSCI Carbon Metrics, RQI database

1 Scope 1 allows for an understanding of how much carbon is emitted through the company's operations. Scope 2 covers the company's purchase of energy.
2 That is, attempting to minimise tracking error to the benchmark while applying a carbon intensity constraint.
3 Tracking error is the volatility (or standard deviation) of active returns, and measures the variation of returns around a benchmark (for example). An index fund has low tracking error as it closely tracks the benchmark, while a highly active fund can have a tracking error of 5% or higher.

# 04 | Human rights and modern slavery



# 04 | Human rights and modern slavery

## Why is it important to us?

Modern slavery is a crime that is present in every country in the world, with around 50 million people estimated to be living in situations of modern slavery globally.[1] This is an increase of 10 million people since the previous estimates in Walk Free's Global Estimates of Modern Slavery 2018. Women, children and migrant workers are disproportionately impacted and approximately 60% of victims are estimated to be in the Asia-Pacific region.

This situation is exacerbated by forces such as climate change and nature loss, as their adverse impacts push people to migrate and expose vulnerable populations to modern slavery.

Beyond modern slavery, human rights are at risk of violation all over the world, particularly in areas of armed conflict. The escalation of the Israel-Palestine conflict in the latter half of 2023, as well as the ongoing conflict in Ukraine, have highlighted the adverse impacts that armed conflict has on the rights of vulnerable civilian populations. At any given time, there are more than 100 armed conflicts going in the world,[2] putting both civilians and soldiers at grave risk of human rights abuses.

Investors have a role to play in identifying and managing human rights risks within our portfolios, as companies that fail to proactively manage these risks can face legal, reputational and financial consequences. We can contribute positively by articulating our expectations of the companies we invest in, as they relate to human rights, and holding them accountable for meeting these expectations. We can also make efforts to map the human rights and modern slavery risks related to our portfolios, so we can manage them more proactively.

## What is First Sentier Investors doing?

Members of the RI team led the development of the Responsible Investment Association of Australasia's (RIAA) Investor Toolkit on Human Rights and Armed Conflict, which was launched in May 2023. This is part of a broader piece of work to better understand our exposure to Conflict-Affected and High-Risk Areas (CAHRA), and what it means for our human rights risks.

A key part of the ESG Data Strategy was the development of an interactive Modern Slavery Dashboard, based on data provided by Walk Free's Global Slavery Index (GSI) 2023. Walk Free also presented to investment teams to help them understand the scope of data in the GSI, and how it could be used in investment processes.

The dashboard is designed to provide investment teams with a high-level mapping of modern slavery risk by country and by industry, as well as information regarding where at-risk products are being imported from. The investment and RI teams also worked closely with the firm's Corporate Sustainability team and other teams across the firm to produce our Modern Slavery Statement 2023, which provides further details on our work in this area.

The UN Global Compact (UNGC) is a voluntary initiative that calls for companies to meet minimum fundamental responsibilities in the areas of human rights, labour, the environment and anti-corruption. In 2023, we worked with a number of investment teams to identify if any companies in their portfolios were flagged for non-compliance with UNGC and how to address this. In general, the proportion of companies rated as 'watchlist' or 'non-compliant' with the ten principles of the UNGC – as assessed by Sustainalytics – is low across the portfolios, and stable over the course of 2023. The funds managed by several teams had no investments in companies assessed as non-compliant. The funds managed by investment teams which had some level of investment in companies assessed as non-compliant, may continue to hold the company because they are aware of the situation and monitoring or engaging with the company on the issue, or they disagreed with Sustainalytics' assessment.

Investment team activity related to human rights and modern slavery included the below:

- The **Global Listed Infrastructure** team assessed the risk of modern slavery in its research focus list, considering sectors, geographies, and companies. External data sources, including the Transparency International Corruption Perceptions Index, helped identify countries associated with modern slavery risks. Each company in the focus list was ranked based on the vulnerability index of the countries where they operate and engagement efforts are prioritised towards companies with higher exposure in countries ranked higher on the index.
- **Fixed Income, Global Credit & Short-term Investments** engaged with 14 companies in 2023, with a focus on monitoring and/or follow up on any outstanding issues from 2022, as well as part of a review of its holdings in European banks.
- **Australian Equities Growth** completed a research project on free, prior and informed consent (FPIC) in a traditional owner context and its application in Australia, and used this work to inform its conversations with mining and energy companies on their approach to FPIC. The team also progressed its ongoing engagement with electronics retailer JB Hi-Fi as part of the Investors Against Slavery and Trafficking (IAST APAC) initiative.

Finally, we continued to chair the Steering Committee of IAST APAC. See page 17 for further details.

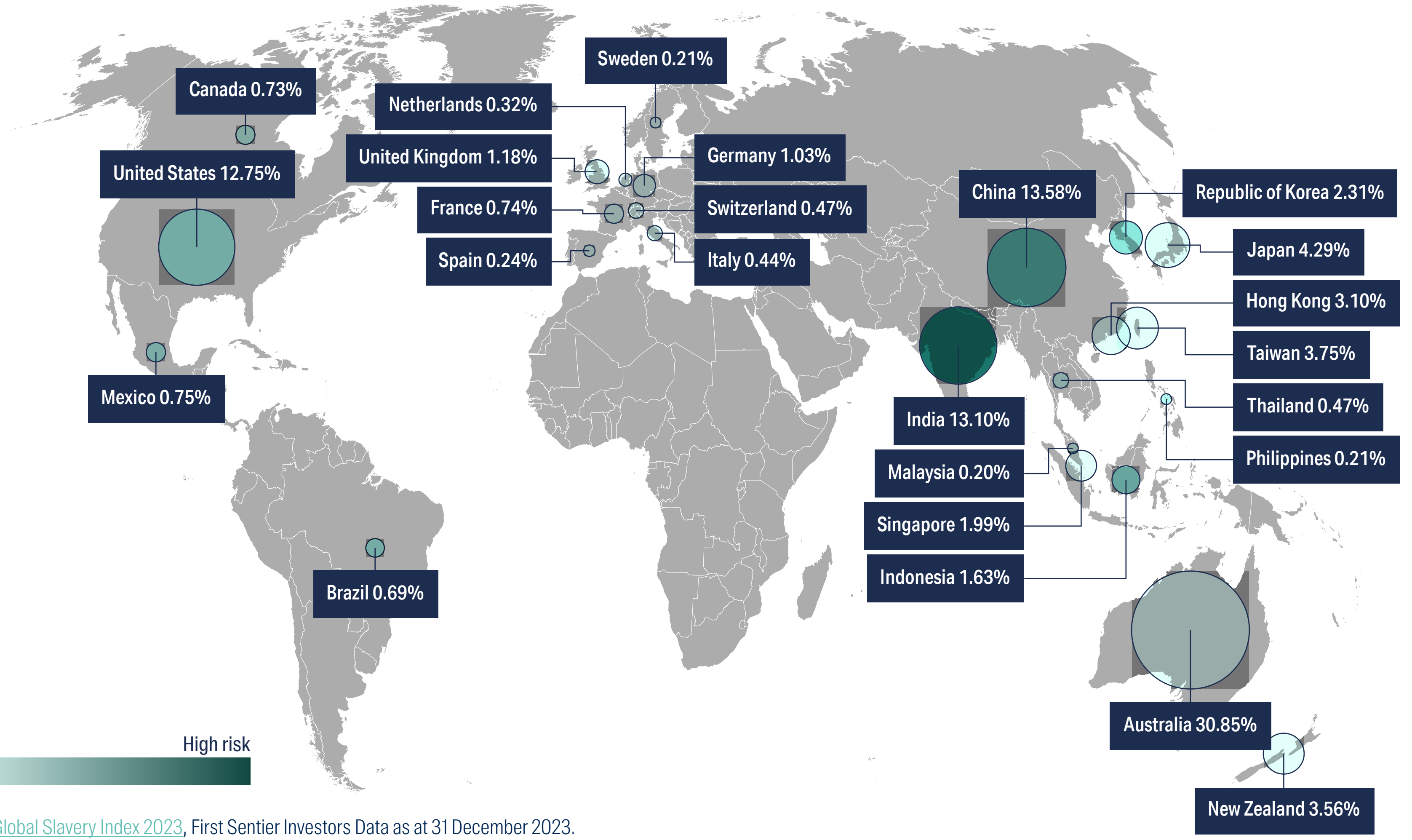
1 ILO, Walk Free & International Organization for Migration. (2022). Global Estimates of Modern Slavery: Forced Labour and Forced Marriage.
2 Geneva Academy Rule of Law in Armed Conflict Online Portal (RULAC)

## Reporting on progress

The country map on this page, taken from our Modern Slavery Portfolio Analytics tool, shows the levels of modern slavery risk across various countries where our funds are invested in listed equities and corporate fixed income. The size of the bubble relates to our exposure to companies across these asset classes (expressed as percentages in the labels), and the colour of the bubble relates to modern slavery risk (darker green = higher risk). Modern slavery risk is measured per country using a combination of factors including the estimated total number of people living in modern slavery conditions, the number of victims as a percentage of population and the country's vulnerability score as measured by the Global Slavery Index. As the map demonstrates, our greatest risks are concentrated in Asia, hence why we decided to focus on this region as part of the IAST APAC initiative profiled on page 17.

*"Modern slavery is a crime that is present in every country in the world, with around 50 million people estimated to be living in situations of modern slavery globally."*[3]

**Figure 3. Our global modern slavery exposure and risk for listed equities and corporate fixed income**




Source: Global Slavery Index 2023, First Sentier Investors Data as at 31 December 2023.

3 ILO, Walkfree & International Labor Organization for Migration. (2022). Global Estimates of Modern Slavery: Forced Labour and Forced Marriage.

## Challenges

In sustainable finance strategies around the world, there is a particular focus on climate change data, and on actions that can be more easily measured, such as reducing carbon emissions. And while this is welcome, it can sometimes be at the cost of investors' attention being directed away from human rights issues, which are harder to quantify but no less important than climate action. Moreover, a lack of progress on human rights and modern slavery will compound the issues that are, regrettably, being worsened by climate change.

We advocate for a more holistic view of the climate change and human rights nexus, so that we can aim to drive positive change in both areas, not at the expense of one.

It has been challenging to find good quality data to determine our exposure to human rights risks. We have sought to engage with other investors, standard setters, ESG research providers and civil society organisations to address this issue, through our policy advocacy program, our work on CAHRA exposure, and IAST APAC (see feature on the next page).

## Future plans

A future focus will include a more thorough mapping of our exposure to CAHRA, and increasing our understanding of the geopolitical risks that increase human rights risks for the companies we invest in.

## Feature:
## Investors Against Slavery and Trafficking Asia Pacific

IAST APAC is an investor-led, multi-stakeholder project. It was established in 2020 to engage listed companies in the Asia-Pacific region to find, fix and prevent modern slavery in their operations and supply chains. IAST APAC comprises 42 investors with A$9.4 trillion in assets under management[4], with Walk Free and the Finance Against Slavery and Trafficking (FAST) initiative acting as knowledge partners and Walk Free as Secretariat.

A company's exposure to modern slavery risks can be complex due to both the contextual nature of the risks (different issues can be present based on sector, industry, geography) as well as the rise of distributed, dynamic and fragmented supply chains.

While a single data point is never the 'answer' to modern slavery risks, the members of IAST APAC believe that disclosure and collection of a core set of metrics can help provide the first step towards comparability and facilitate discussion and engagement of a company's approach and outcomes.

As part of this, the group assembled a number of ESG data providers to discuss gaps in modern slavery analysis, understand gaps in current metrics and develop a core list of metrics in relation to modern slavery. The subgroup heard from data providers, standard setters, and academics as they looked for ways to improve the use of data.

The group subsequently drafted a set of recommended metrics for companies to disclose to help better identify modern slavery risk. They are designed to distinguish between "input" and "output" metrics: input metrics represent the inputs into effective management of modern slavery risk while output metrics aim to provide a quantitative measurement of tangible outcomes as a result of policies, frameworks and processes adopted and implemented.

## Feature:
## Stewart Investors – Conflict minerals engagement: forging industry relationships

Stewart Investors is the convener of the multi-year collaborative engagement initiative: 'Tackling conflict mineral content in the semiconductor supply chain'.

Tin, tungsten, tantalum, and gold (referred to collectively as conflict minerals) along with cobalt, are essential building blocks of the semiconductor industry. The poor traceability of these minerals along complex supply chains can make it hard to trace their source, which may often be in conflict-affected regions, and inadvertently finance armed conflict and the abuse of human rights.

Stewart Investors believes there is an opportunity for investors and companies to take a lead in the development of conflict mineral free supply chains. This year, its engagement initiative was able to forge a stronger relationship with the Responsible Minerals Initiative (RMI), a trade body of over 40 members, including the manufacturers of technology.

As part of this relationship-building, the initiative chaired and hosted a closed-door workshop, endorsed by the RMI, with 16 leading electronic companies to discuss challenges and opportunities for improvement. One of Stewart Investors' representatives also became the first investor to speak at the RMI's Annual Conference in Santa Clara, California on the positive role of capital.

In a significant step forward, the RMI agreed to allow investors to join the organisation. This was an objective we had set the year before, based on the belief that it would provide investors and supporters of the initiative with a deeper understanding of mineral supply chains and greater engagement credibility. Membership should also enrich engagement conversations with companies at senior levels, and highlight the importance of mineral traceability.

Stewart Investors recognise that engagement on this topic will be a long journey, over a number of years, but hope that by building a closer relationship with the RMI and influential companies in the electronics supply chain, it is a step closer to effecting change.

4 According to IAST APAC Annual Report FY2022–23

# 05 | Diversity, equity and inclusion

# 05 | Diversity, equity and inclusion

## Why is it important to us?

Diversity, equity and inclusion (DEI) are the keys to building fair and equitable organisations, institutions and communities. There are many business benefits that can accrue from including people with different skills, life experiences and outlooks. We also believe that creating diverse organisations is the right thing to do, as it allows a wide range of people to access opportunities and fully participate in the workforce, to the best of their abilities.

## What is First Sentier Investors doing?

We believe collaborative engagements can be a force for change in this area, and as such, we continue to be active members of the 40:40 Vision initiative in Australia, which advocates for listed Australian companies to have at least 40% women in senior management, and we support the 30% Club's aim of seeing all company boards with at least 30% female representation. We have found that while a growing number of companies in developed markets are meeting this goal, there is still a large percentage of companies that do not. This year we analysed our own portfolio holdings to understand the regional and other differences, to better target our engagement efforts in future.

During 2023, we saw the introduction of Principal Adverse Impact (PAI) reporting under the European Union's (EU) Sustainable Finance Disclosure Regime (SFDR), which calls for reporting on the gender diversity of boards, as well as unadjusted pay gap, which is a relatively new reporting request in most markets. In response, the RI team developed a research paper on the gender diversity PAIs, to help inform investment teams about these metrics.

We are also focused on increasing the diversity of our own workforce, especially in the investment teams, which have, historically, been predominantly male. These efforts focus on both attracting women into the industry, and retaining them once they have joined. Further details of this activity are outlined in our Corporate Sustainability Report.

## Reporting on progress

In 2022, we reported, for the first time, on the gender diversity of boards for our listed equities portfolio, and its variance to an aggregated benchmark.[1] There has been a marginal increase in that number for 2023, and it remains ahead of the benchmark. It is more difficult to report the equivalent for fixed income, due to the varied nature of issuers and security types. We continue to look for ways to address this gap.

**Figure 4. Gender diversity on boards in First Sentier Investors portfolios**

| | Weighted average % females on boards – First Sentier Investors portfolio | Weighted average % females on boards – aggregated benchmark | Variance to aggregated benchmark | Coverage (%AUM) |
|---|---|---|---|---|
| **Listed company boards 2023** | 29.3% | 28.5% | 0.8% | 91.2% |
| **Listed company boards 2022** | 26.2% | 25.0% | 1.2% | 91.5% |

Source: First Sentier Investors, Sustainalytics SFDR PAI Data Set. Data as at 31 December 2023.

1 The aggregated benchmark is a weighted average benchmark, using benchmarks associated with each portfolio and weighted by each portfolio's portion of the total assets under management.

## Challenges

While gender diversity data is widely available for listed company boards, it is less straightforward to find easily comparable data on management gender diversity.

There are also many more aspects of diversity than just gender, but reporting on these factors is limited. There are also the sensitivities of asking employees for such data about themselves, so there is more work to be done for investors to understand the landscape as it is today, and what appropriate targets we should set.

## Future plans

Gender is not the only relevant marker of diversity. In future, we would like to include factors such as ethnicity, neurodiversity, socio-economic background and disability in our company engagements. The First Sentier MUFG Sustainable Investment Institute has commenced a research paper on this topic, which will be launched in 2024.

In 2024, there will be more transparency about unadjusted pay gap data, as companies in Australia will need to report publicly, which brings it in line with existing United Kingdom requirements. This will be followed by EU member states in coming years. We will look to use this data as one measure for understanding a company's DEI efforts.

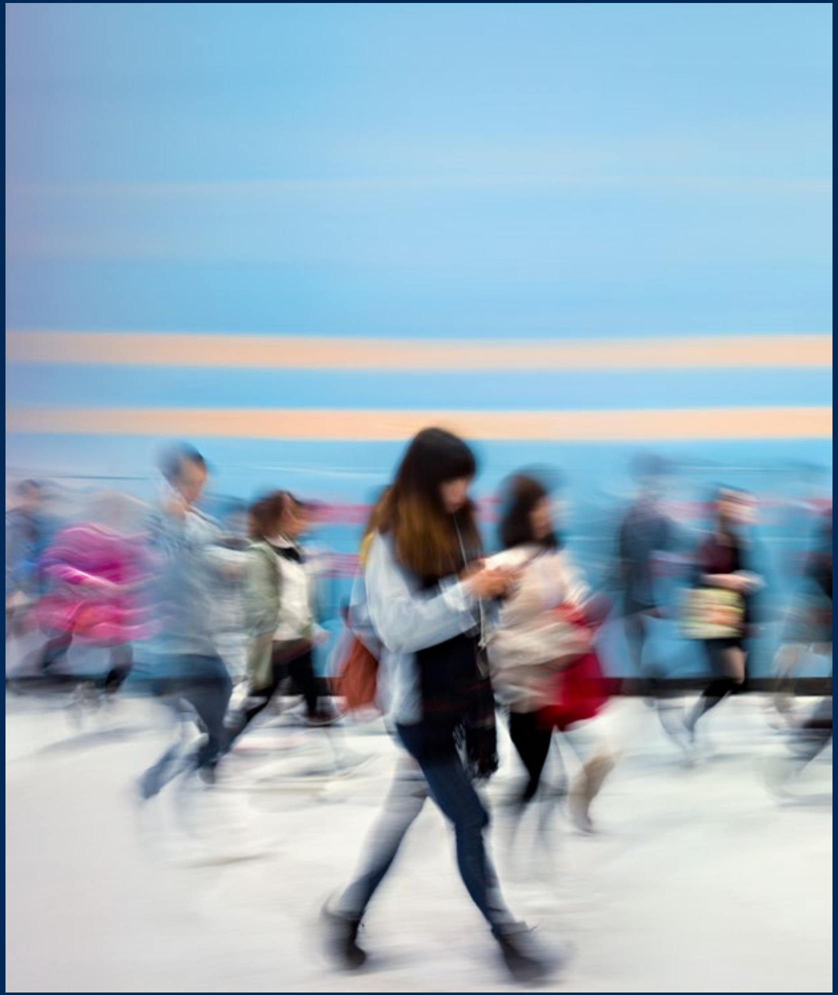
Feature:

## RQI Investors – Exploring the glass cliff: women CEOs and turnarounds

RQI Investors has built a powerful data set for gender diversity, based on the MSCI World universe of companies spanning over 23 Developed Markets countries, with over 1,500 constituents. It looks beyond easy-to-find board diversity data, to include leadership team composition.

The first report based on the data set was launched in 2022 and titled *'Beyond Lip Service: tracking the impact of the gender diversity gap'*. It showed that higher female executive participation improves company performance, while creating potential returns for investors.

In 2023, RQI Investors undertook further analysis of the data set. It looked at the time series covering the period 2013 to 2022, and explored the correlation between gender, CEO appointments and stock price, and ESG ratings. Analysis found that when underperforming companies appoint a female CEO, they are more likely to turn around investor returns, while male appointments are more likely to continue the underperformance. Moreover, the data showed that female CEO appointments have a neutral impact on ESG risk, while male appointments are associated with subsequent increases.

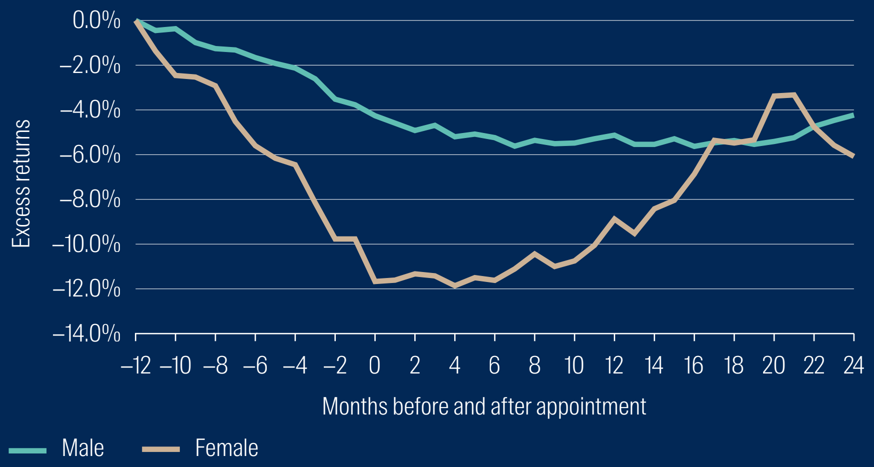


## Women drive turnarounds

CEO appointments are often associated with a fall in equity performance in the run up to an appointment. The data shows that in these situations, female CEO appointments are often associated with greater underperformance (11% below the market) prior to appointment, compared to male CEOs (4% below market).

Once in the role, however, women oversee a recovery in the ensuing two years that more than doubles the company's shareholder returns. By comparison, male CEO appointments stabilise the falling performance, however there is little improvement in the following two years (*Figure 5*).[2]

**Figure 5. Stock excess performance[2] around CEO appointment**




Source: MSCI, RQI Investors, Data from 1 January 2013 to 31 December 2022.

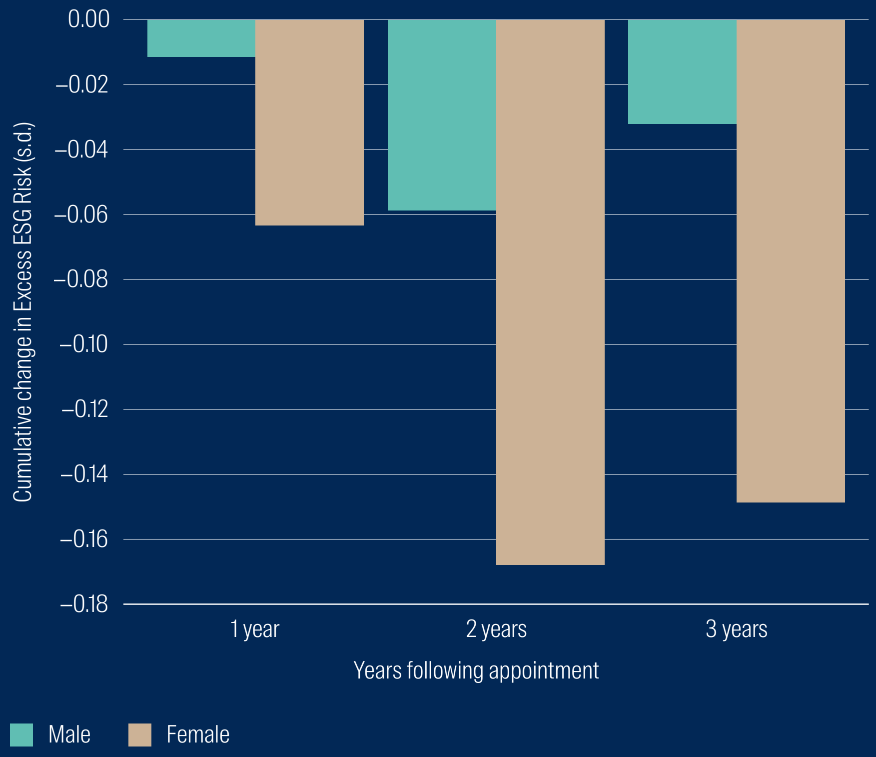
## Male CEOs less effective in reducing ESG risk following appointment

RQI Investors then examined the change in ESG risks (controlling for the market wide and industry effects) of developed market companies following the appointment of male and female CEOs, and their cumulative change over the ensuing three years.

The data showed that over time, ESG risk relative to industry peers reduces over the three years following a new CEO appointment. However, following a female appointment, the reduction in risk is over four times larger than their male counterparts over the same period (*Figure 6*).

Risk is assessed using Sustainalytics' ESG Risk Rating,[3] which measure a company's exposure to industry-specific material ESG risks and how well a company is managing those risks. It measures the excess risk relative to a company's industry peers and we examine those differences over time.

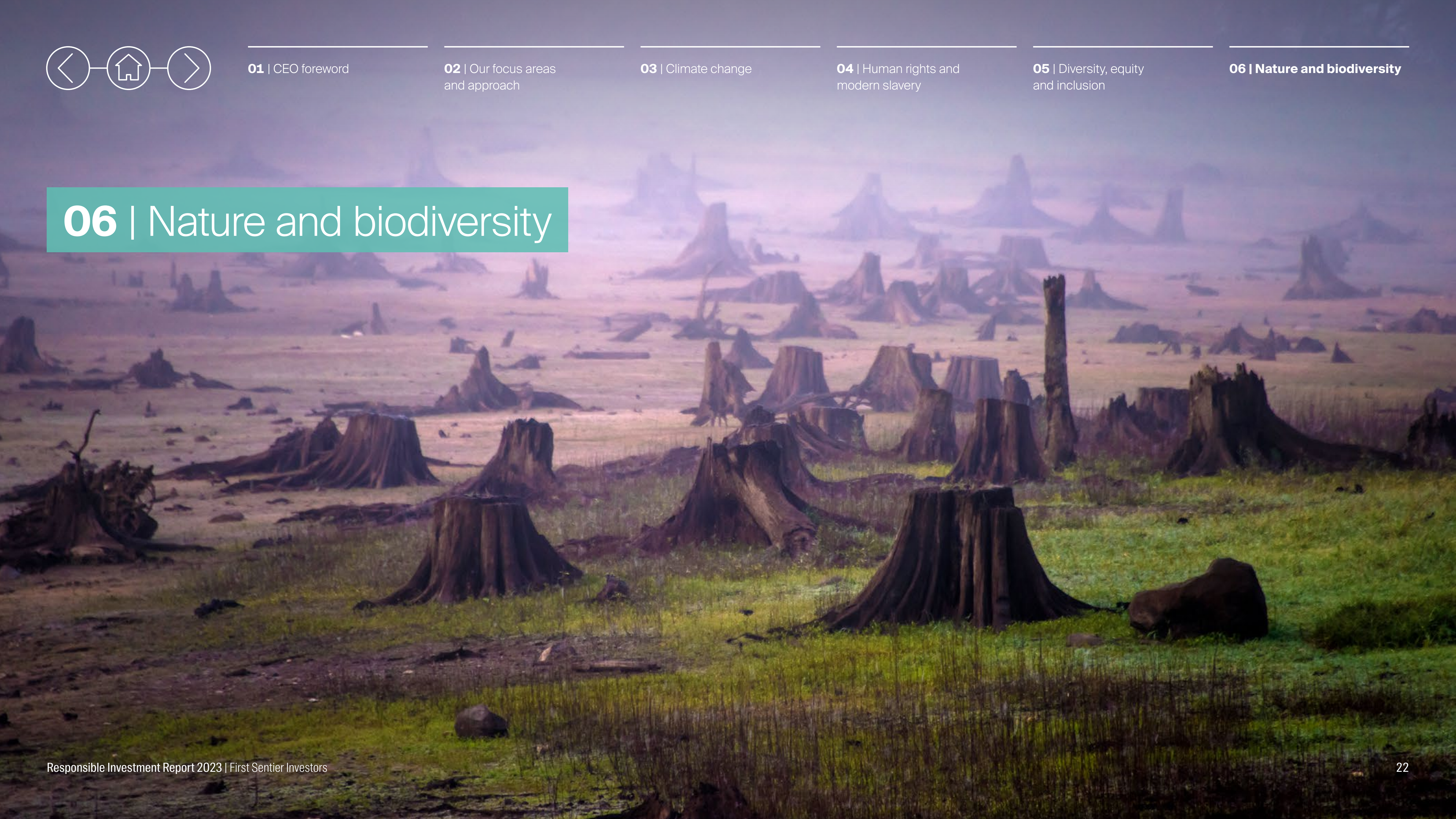
**Figure 6. Firm level ESG risk following CEO appointment**




Source: MSCI, RQI Investors. Data from 1 January 2013 to 31 December 2022.

RQI Investors is using data sets like these to better understand how gender diversity can improve returns in its portfolios.

2 Stock excess performance is the difference between a stock's return and a given benchmark. The benchmark used here is the MSCI World Index.
3 Data is only available from 2015 for ESG Risk rating.



# 06 | Nature and biodiversity

# 06 | Nature and biodiversity

## Why is it important to us?

Nature and biodiversity matter to investors because the very companies we invest in not only impact, but truly depend on nature; yet we increasingly see a rapid loss of nature and biodiversity. Biodiversity conservation and climate action are intrinsically linked. As the planet's best defence against climate change, it is important for investors to consider biodiversity and nature's protection in meeting net zero targets and building a more climate resilient future.

## What is First Sentier Investors doing?

In 2022, we convened a Nature and Biodiversity Working Group, comprised of members from nine of First Sentier Investors' 15 investment teams.[1] A key output of this group was the delivery of a Nature and Biodiversity Toolkit launched in 2023, which provides a framework for assessing and engaging with investee companies on nature-related issues available to our investment teams. In 2023, we followed up on this work with the launch of a guide on these issues, to share our experiences and insights, and help to equip other investors with actionable tools on this topic. *Investors Can Assess Nature Now* (ICANN) is a guide for investors to better identify and assess materiality, exposure and responses to nature-related issues, to be used in company engagement and disclosure.

Other activity included the First Sentier MUFG Sustainable Investment Institute producing an engaging video that makes the case for protecting nature and explains how investors can take action. Two investment teams – RQI Investors and Global Credit – joined the investor engagement group on this issue, Nature Action 100.

We are also continuing to meet our requirements for the Finance for Biodiversity Pledge (FBP), an initiative calling for commitments to take ambitious action on biodiversity, as outlined on page 26.

1 There were 15 teams at the time First Sentier Investors convened the Nature and Biodiversity Working Group in 2022.

## Feature: TNFD Scoping Exercise and Core Sector Metric Disclosure

In December 2022, First Sentier Investors joined the Taskforce on Nature-related Financial Disclosure (TNFD) Forum. Our approach to implementing the TNFD framework will build on the Nature and Biodiversity Toolkit, developed in 2023, and leveraging the collective knowledge of our Natural Capital and Biodiversity Working Group, convened in 2022. In line with the TNFD's LEAP (Locate, Evaluate, Assess and Prepare) framework, we started to scope our assessment in 2023.

**Initial scoping results**

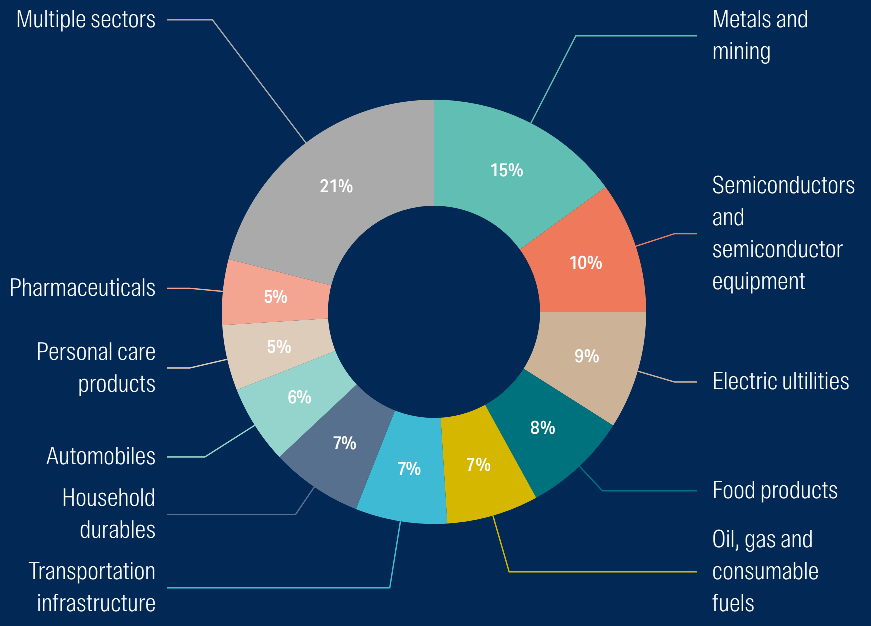
Our business is asset management and the main functional units within our business include 16 investment teams (as of November 2023). In terms of our asset classes, as of December 31, 2023, we invest in listed equities (55%), cash and short-term investments (21%), unlisted direct infrastructure (12%), fixed income (7%), and private debt (5%). For initial firm-level nature assessments we would start with listed equities and corporate fixed income, covering 58% of our total AUM. Our potential interaction with nature would be mostly through our investments, some indirectly (via listed investments) and some directly (via direct investments in projects).

Within the in-scope asset classes, we allocate capital to several countries around the world, with 29% of our capital allocated to companies headquartered in Australia, followed by India (15%), US (12%), Hong Kong (11%), Mainland China (5%), Japan (5%), Taiwan (4%), and Singapore (3%). These countries make up about 84% of our total AUM. These countries will be the main focus of our Locate section of the LEAP exercise (material locations[2]) moving forward in relation to our investments.

TNFD's Additional Guidance for Financial Institutions version 1.0 notes that financial institutions should disclose a metric that represents the financial exposure to a defined set of sectors considered to have material nature-related dependencies and impacts (one of the core sector metrics for the financial industry). The TNFD has identified sectors that should be considered and we have analysed our exposure to these 22 sectors. The percentage of in-scope companies' AUM with exposure to the TNFD material sectors, relevant to the firm's total AUM, is 19%[3]. In other words, 33% of our listed equities investment and 31% of our corporate fixed income investment are allocated to these material sectors.

Within this 19% exposure, our listed equities and corporate fixed income investments are allocated to a number of sectors material to nature-related issues, including: metals and mining, semiconductors, electric utilities, food products, oil and gas, transportation infrastructure, household durables, automobiles, personal care products and pharmaceuticals.

**Figure 7. TNFD material sector breakdown**




Source: TNFD. (2023). Additional guidance for financial institutions. First Sentier Investors. Data as at 31 December 2023.
Note: sector allocation of in-scope companies only; multiple sectors include Chemicals, Textiles Apparel & Luxury Goods, Ground Transportation, Diversified REITs, Beverages, Gas Utilities, Construction Materials, Commercial Services & Supplies, Construction & Engineering, Water Utilities, Independent Power & Renewable Electricity Producers, Passenger Airlines, Containers & Packaging and Marine Transportation. These are grouped together as we have 2% or less exposure to each of them.

2 TNFD. (2023). Taskforce on Nature-related Financial Disclosures (TNFD) Recommendations.
3 This figure therefore does not include material sector exposure of other asset classes that are out of scope (e.g. cash and derivatives).

**Sector mapping and biodiversity sensitive area exposure**
The LEAP framework's L2 question is: "where are the sectors, value chains and direct operations with potentially moderate and high dependencies and impacts located?". So, we mapped our listed equity holdings using December 2022 AUM data and a heat map, to identify sectors where there is exposure to nature-related issues. This result was disclosed in the second iteration of the Nature and Biodiversity Toolkit, Investors Can Assess Nature Now (ICANN) guide, which was published in September 2023. We note that "a list of environmental assets, ecosystem services and impact drivers by portfolio sector identified in the heat mapping exercise in the Locate phase" is mentioned as one of the outputs of the LEAP framework's Evaluate phase for financial institutions. From this exercise, we were able to understand key dependencies and impact drivers upstream and in direct operations, per each material sector, especially the dependence on terrestrial ecosystem use and water use, as well as impacts via water and soil pollutants and soil waste.

In addition to the general sector mapping using the Sector Materiality Tool as above, we worked with a number of investment teams to map their investment holdings to high freshwater and (agriculture-related) forest risk sectors and countries, two areas we are focusing on in relation to nature and biodiversity. Our approach to assessing and engaging in these issues is further detailed in the ICANN guide.

Finally, the other core sector metric recommended by the TNFD for financial industry is the exposure to companies with activities in sensitive locations (absolute amount or percentage of invested or owned assets for asset managers). Using reported and estimated data sourced by Sustainalytics[4], our AUM exposure as of December 2023 was 5.57%, with about 81% data coverage for the in-scope companies. Where data is available on such sensitive locations, we will try to use it in conjunction with our analysis on material locations,[5] in order to identify priority locations and to prioritise companies for further assessment and engagement. We use many other indicators collected from various sources, as discussed in the ICANN guide.

In 2024 we plan to work closely with the Corporate Sustainability team to disclose our direct operation locations. Together we will start assessing impacts, dependencies, risks and opportunities in our offices using the TNFD's core global metrics and documenting firm-wide processes for identifying, assessing and prioritising such nature-related issues in our direct operations.

4 According to Sustainalytics, 'Biodiversity-sensitive areas' refer to Natura 2000 network of protected areas, UNESCO World Heritage sites and Key Biodiversity Areas (KBAs), as well as other protected areas, as referred to in Appendix D of Annex II to Commission Delegated Regulation (EU) 2021/2139, we view that this definition is aligned with the TNFD's definition of sensitive locations.
5 TNFD. (2023). Taskforce on Nature-related Financial Disclosures (TNFD) Recommendations.

## Reporting on progress

The following table describes actions taken to meet our requirements for the Finance for Biodiversity Pledge.

**Figure 8: Finance for Biodiversity Pledge**

| Commitment | Progress made to date |
|---|---|
| **Collaboration and knowledge sharing** | Over the course of 2023, we joined more collaborative engagements and industry initiatives on nature and biodiversity, continuing our efforts made from the previous year.<br>• Microplastic pollution engagement lead (since 2020)<br>• TNFD Forum member (2022)<br>• Responsible Investment Association Australasia (RIAA) Nature Working Group (2022)<br>• Hong Kong Green Finance Association Biodiversity Working Group (2023)<br>• Finance for Biodiversity Foundation Target Setting Working Group (2023)<br>• Cambridge Institute for Sustainability Leadership (CISL) Nature Positive Hub (2023)<br>• ShareAction Biodiversity Hub member (2023)<br>• Spring (PRI stewardship initiative on nature) endorser (2023)<br>• Nature Action 100 investor participant (2023)<br>• Mining 2030 supporter (2023)<br>Held multiple internal sessions to increase team members' technical knowledge around nature and biodiversity.<br>Published *Investors Can Assess Nature Now* guide and engaged with stakeholders on our framework and learnings. |
| **Engaging with companies** | Use of the Natural Capital and Biodiversity Toolkit for company engagements on freshwater and deforestation.<br>Some investment teams have started identifying priority targets for engagement, collecting data and questions, following the engagement framework provided in the Toolkit. |
| **Assessing impact** | Conducted sector materiality and developed a heatmap across our listed holdings.<br>Monitored biodiversity-related indicators in the SFDR Principal Adverse Impact data set.<br>Engaged with various impact assessment service providers to start impact assessment. |
| **Setting targets** | Continued monitoring the development of the Science-Based Targets Network's work on science-based targets for nature (land and freshwater).<br>Reviewed Nature Target Setting Framework for Asset Managers and Asset Owners published by Finance for Biodiversity Foundation in November 2023 and started exploring options for target setting. |
| **Reporting publicly** | Continued to report on progress in our annual RI Report and other specific reports where appropriate. |

## Challenges

As a complex and interconnected issue, there are many challenges for investors.

We believe that assessing our exposure to water and deforestation, mapping various data points to our holding companies, assessing priority companies in depth, and engaging on material issues and gaps, can provide us new opportunities to understand our risk and dependency on nature. However, current data availability is patchy at best, and certain datasets are more accessible than others.

On a positive note, as more companies start to focus on this issue, there will be more opportunities for investors to assess nature-related risks, dependencies, and impacts. We believe improved disclosure is an important objective for company engagement, as this area continues to evolve.

Another challenge is approaching this topic in a more holistic way. Many financial institutions are already engaging with companies on other ESG issues like climate change or human rights. It is our view that biodiversity and nature issues, if not properly addressed, can exacerbate the existing problems, or if better handled, can provide solutions to other issues. This is especially relevant to deforestation issues, where nature loss, climate change and human rights abuse are often intricately linked in a certain biome or location.

## Future plans

Since signing the Finance for Biodiversity Pledge in 2021, First Sentier Investors has been working towards delivering five actions by the end of 2024 (see Figure 8). The most challenging parts for us are Step 3: assessing impacts; and Step 4: setting targets. Regarding impact assessment, we are speaking with various providers of biodiversity footprinting methodologies, to understand their approaches and decide on a way forward for the firm.

A starting point for assessing impacts includes reporting fund-level nature-related disclosure criteria, such as 'biodiversity sensitive area' and 'emissions to water' indicators as part of the Principal Adverse Impacts disclosure under the EU SFDR.

On target setting, we will continue monitoring the development of the Science-Based Targets Network's work on providing guidance for financial institutions' target setting approaches. Target setting will be largely based on the progress made in impact assessment, as it would help us understand the baseline.

Our other plans include taking part in collaborative engagements on deforestation; making updates to the Natural Capital and Biodiversity Toolkit; and continuing to take a leadership role on engaging with washing machine manufacturers and policy makers on the issue of microfiber pollution.

## Feature:
## Investors Can Assess Nature Now

The interconnected nature of some of the most complex global issues of today, including biodiversity, climate change and human rights, means that collaboration is critical for investors. First Sentier Investors believes that we must work together to build our knowledge capital, better position ourselves to manage such risks, and ultimately drive a shift in financial flows towards a more nature positive economy.

As a result, we created the ICANN guide as an invitation to work together, and to continue discussing emerging solutions and addressing challenges. It builds on our work to create an internal toolkit ("Nature and Biodiversity Toolkit") for investment teams, and aims to demonstrate that financial institutions can already start conducting sector-level and company-level assessments on key topics like freshwater and forests.

During the process of developing our own toolkit, we heard from many investors and peers that even though they are interested in working on this topic, they are not sure where to go, what to look for, or how to use existing resources.

With that in mind, we wanted to share a step-by-step guide that references data resources that can be used at each stage to make it easier for investors to understand which tools and databases can support their analysis.

This guide outlines:

- Why nature and biodiversity should matter to investors;
- Our roadmap for addressing nature-related risks and impact drivers, including our work to date;
- A toolkit that maps out our approach to identifying nature and biodiversity-related risks and developing engagement approaches;
- How we intend to move forward in this focus area; and
- A suggested use case for investors to consider when preparing for their own nature-related risk assessment, due diligence and engagement, as a starting point for disclosures aligned to the framework outlined by the TNFD.

The ICANN guide was launched in September 2023 and was welcomed by a range of stakeholders. The launch webinar attracted attendees from diverse parts of the industry, including financial institutions, consultancies/ESG data providers, non-government organisations (NGOs) and media. It featured in 25 media articles and podcasts, and garnered strong engagement on social media. Going forward, the guide will form the basis for future investment processes related to nature and biodiversity, both within First Sentier Investors and, we hope, among our peers.

**Important Information**

This material is for general information purposes only. It does not constitute investment or financial advice and does not take into account any specific investment objectives, financial situation or needs. This is not an offer to provide asset management services, is not a recommendation or an offer or solicitation to buy, hold or sell any security or to execute any agreement for portfolio management or investment advisory services and this material has not been prepared in connection with any such offer. Before making any investment decision you should consider, with the assistance of a financial advisor, your individual investment needs, objectives and financial situation.

We have taken reasonable care to ensure that this material is accurate, current, and complete and fit for its intended purpose and audience as at the date of publication. #To the extent this material contains any measurements or data related to environmental, social and governance (ESG) factors, these measurements or data are estimates based on information sourced by the relevant investment team from third parties including portfolio companies and such information may ultimately prove to be inaccurate.# No assurance is given or liability accepted regarding the accuracy, validity or completeness of this material and we do not undertake to update it in future if circumstances change.

To the extent this material contains any expression of opinion or forward-looking statements, such opinions and statements are based on assumptions, matters and sources believed to be true and reliable at the time of publication only. This material reflects the views of the individual writers only. Those views may change, may not prove to be valid and may not reflect the views of everyone at First Sentier Investors.

To the extent this material contains any ESG related commitments or targets, such commitments or targets are current as at the date of publication and have been formulated by the relevant investment team in accordance with either internally developed proprietary frameworks or are otherwise based on the Institutional Investors Group on Climate Change (IIGCC) Paris Aligned Investment Initiative framework. The commitments and targets are based on information and representations made to the relevant investment teams by portfolio companies (which may ultimately prove not be accurate), together with assumptions made by the relevant investment team in relation to future matters such as government policy implementation in ESG and other climate-related areas, enhanced future technology and the actions of portfolio companies (all of which are subject to change over time). As such, achievement of these commitments and targets depend on the ongoing accuracy of such information and representations as well as the realisation of such future matters. Any commitments and targets set out in this material are continuously reviewed by the relevant investment teams and subject to change without notice.

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