Cash and Fixed Interest Responsible Investment Policy

Purpose

This policy sets out Australian Unity's cash and fixed interest team's (Altius) approach and expectations for considering Environmental, Social and Corporate Governance (ESG) factors in our investment decision-making practices. The unique characteristics of the cash and fixed interest asset classes require a different stewardship approach to equity investors. This policy covers all co-mingled cash and fixed interest funds and is focused on the corporate and financial institutions that issue debt eligible for inclusion in our investment universe.

The aim of our responsible investment activities is to protect and enhance the value of our client's capital. It is also part of our wider responsibility to uphold the quality and integrity of the financial markets in which we invest. Responsible investment underpins the quality of our investment process.

Incorporating ESG assessment enhances our knowledge and understanding of a company's management, culture and business strategy and enables us to make better informed investment decisions on behalf of our clients. We believe ESG issues can have a direct impact on an issuer's risk and its probability of default. If not managed properly these risks can lead to inefficiencies or disruption of operations, which could then become liabilities (regulatory, litigation or reputational) that may impact a company's cash flow and therefore their credit rating and ultimately their cost of debt.

Investment Philosophy

Our investment style is focused on building returns by allocating active risk in a highly disciplined, methodical way to identify the best sources of return. Our macro research process allows us to capitalise on opportunities in all market conditions, for instance avoiding or reducing negative returns in a sustained rising interest rate environment or a deteriorating credit market.

We employ a comprehensive risk management framework that includes multiple scenario stress testing, risk-adjusted sizing of duration and credit positions as well as comprehensive diversification at the security/sector level. Stock selection is a conservative process where we identify high quality securities to express our macro strategies. This is further informed by the insights gleaned in our ESG risk assessment which is fully integrated into our bottom up credit assessment. ESG factors play a role in determining the sustainability of the business model which underpins the credit quality of the issuers in our investment universe

ESG Risk Management Approach

<u>ESG integration</u>

ESG integration is an approach which considers all material factors in investment analysis and investment decisions, including environmental, social and governance factors. The systematic integration of ESG risk assessment into our proprietary credit research process means our investment team makes informed investment decisions with knowledge of key ESG risks on an integrated basis. As such we are focused on ESG issues that are material and forward looking.

The first stage of our credit research for potential investment is a review focusing on the key industry, business, financial, ESG and security risks resulting in an indicative proprietary Altius Credit Score (Credit Score). Once a decision is made to proceed, a comprehensive credit review is carried out for all corporate or financial institution issuers we buy.

Our ESG risk assessment involves considering the financial impact of material sustainability issues from an investment standpoint. We consider the relevance and materiality of the following issues, which are then factored into our credit assessment:

Environment:
Climate change, energy resources and management, pollution (air, water, and land), bio-capacity and ecosystem quality, renewable and non-renewable resources.

Social:
Human rights, employee relations, stakeholder relations, product responsibility, health & safety, diversity.

Governance:
Business integrity, board expertise & independence, transparency and accountability, audit practices, incentive structure, fiduciary duty.

The Credit Score is a measure of credit quality and a forward-looking judgement of the credit risk of an issuer. We are focused not just on the ESG risk profile and performance of an issuer but on how these issues may impact the business and financial profile of the issuer. Our research is focused and analysis centres upon the most material ESG issues and interaction of ESG risks with the fundamental creditworthiness of the issuer. We also look at recent controversies for an additional check on management ability and culture of an organisation to gauge for potential future liabilities that will impact on creditworthiness.

We contract for customised controversy alerts through our ESG research provider. The other main sources for ESG news are media organisations such as Bloomberg, Financial Times, Wall Street Journal, Australian Financial Review and Sydney Morning Herald, as well as ESG research from our brokers.

Our ESG view is also informed by other entities, such as various non-government or international organisations such as Carbon Tracker, Institute for Energy Economics and Financial Analysis, Eurosif, Business & Human Rights Resource Centre, The Australian Institute, Bank Track, World Wildlife Fund, United Nations Environment Programme Finance Initiative, World Economic Forum, Transparency International and World Resources Institute, depending on the issues or theme.

Our credit analysts determine whether the scale of the ESG risk is enough to impact the credit assessment. The ESG outcomes in our credit analysis are captured via our proprietary ESG risk rating and are assessed as “High”, “Moderate” or “Low”.

The Credit Score is a major input to the stock selection process used by the portfolio management team. The Credit Score and outlook provide the team with an in-depth view about the credit risk of the issuer and the future direction of this risk. The Credit Score is a key factor used in determining whether an issuer/security is providing adequate spread compensation and assists in sizing of the risk positions for that issuer/security.

ESG engagement

To complement our ESG integration approach, we will engage with issuers if appropriate. We view ESG engagement as a process of dialogue with issuers which occurs naturally as part of the investor and issuer interaction.

Debtholders have a role in engaging with issuers on matters that could impact investment returns, including ESG related ones. As part of our investment process, the credit team regularly meet issuers (particularly at the time of primary issuance) and are therefore able to question management directly. Our focus when discussing ESG issues with issuers include:

- Encouraging issuers to enhance disclosure on ESG practices to allow bondholders to assess ESG risk that may impact the creditworthiness of the issuer;
- Discussing thematic ESG issues that are relevant to their business;
- Engaging issuers to gain information on ESG practices and understand how they mitigate ESG risks.

ESG Resourcing & Governance

Altius' Chief Investment Officer is accountable for all aspects of this policy. Implementation of ESG risk management and integration rests with the Head of Credit Research.

To support ESG integration efforts, we source issuer ESG data from a third party ESG research provider and utilise other ESG data related products and services from external stakeholders, such as Bloomberg, sell-side brokers, regulators, academia and not-for-profit organisations. We are also supported by the Sustainability Advisory Committee

We are proactive in identifying emerging risks for issuers or sectors that may increase reputation and other risks for the company or sector. We may engage either collaboratively or individually with issuers on ESG issues. As part of our membership of RIAA, we are part of the corporate engagement working group.

We are committed to providing timely and relevant communication of ESG risk assessment and integration efforts. We report annually on our ESG integration progress.