Stewardship report
2021

First Sentier Investors

Contents

Introduction from our CEO

I am delighted to share with readers our 2021 Stewardship Report. This report describes our ongoing approach and dedication to meeting the highest standards of stewardship and describes how we meet the Principles articulated in the FRC's UK Stewardship Code 2020. It complements our Responsible Investment Report, which we have published each year since 2007.

We have a long history of commitment to responsible investment (RI) and stewardship across our diverse global investment business. For the past 15 years, First Sentier Investors (FSI) has been committed to the implementation of best practice standards of RI and stewardship globally. This has been informed by an ongoing curiosity as to how environmental, social and corporate governance matters and effective stewardship can influence long-term investment performance.

In this report, we share our key achievements and the challenges we encountered in 2021 as well as areas for on-going development. Through case studies and examples of our stewardship activities in action, we highlight how our investment processes and engagements with industry and individual companies are seeking to achieve positive financial, societal and environmental outcomes.

Welcoming higher industry scrutiny

We have been actively involved in engaging with our industry colleagues in relation to the increasing focus from regulators around the globe in developing higher standards of ESG disclosure. We welcome this development as we believe that a greater level of both transparency and disclosure for investment managers and their products will allow for meaningful comparisons between portfolios by investors and help in addressing the risks of "greenwashing".

It is critical that the confidence that investors have in the value of responsible investment in directing capital to sustainable investments where that is the stated objective, or in promoting environmental and or social characteristics, is maintained across markets globally. We have therefore been actively engaging with regulators, both directly and through our trade associations, to support effective regulation and highlight where we believe improvements can be made.

We will continue to support industry standards and regulation where we believe they are in the best interests of our clients and in the integrity of capital markets.

Research and collaboration

In May 2021, we announced the launch of an exciting new initiative along with our shareholder, MUFG. This initiative, the "First Sentier MUFG Sustainable Investment Institute", has been created to provide research on topics that can advance sustainable investing. The Institute's purpose is to create and commission research on sustainability issues, looking in detail at specific topics from different viewpoints. The first two areas that were covered concerned the growing problem of microplastic and microfibre pollution, which are invisible to the naked eye and therefore often overlooked in favour of macro plastic pollution.

Research from the Institute will be in the public domain with the objective of helping investors, individuals, companies, policy makers and regulators better understand how their decisions can contribute to better outcomes for the environment and society.

Further information on the Institute can be found at: https://www.firstsentier-mufg-sustainability.com

We are also pleased to have the honour of leading two important industry collaborations with colleagues from other asset management and asset owner organisations. These engagements relate to modern slavery in Asia and global marine microfibre pollution. Both of these collaborative engagement programs are beginning to yield encouraging results and further details of our progress can be found in this report.

Collaboration with our peers is an important part of our work and we are delighted to work with colleagues across the industry on a range of issues where we have a common objective to improve outcomes for our clients and other stakeholders.

Governance

As chair of our Responsible Investment Steering Group, I am personally involved in our responsible investment and stewardship strategy and activities.

Over the past year we have strengthened our capability by adding to the global RI team and will continue to build our capacity in the years ahead. A key part of our work is in relation to the knowledge building across the organisation to provide information and resources to educate and support our investment and business leaders globally on social and environmental issues to ensure they are able to meet and contribute to our goals and ambitions.

You will find further details of the team on page 15, 16.

Looking forward

In times of great uncertainty, active asset management firms like ours must deliver our fiduciary obligations by identifying opportunities that benefit investors and deliver value to them while also holding the companies we invest in on their behalf to the highest standards of corporate behaviour. These are not mutually exclusive.

This means that we also have to take decisions that reflect the limitations that government action may impose to support a world that protects human rights and environmental protection globally. When it comes to issues like conflict, climate change, plastic pollution, or threats to biodiversity and human rights, the attitudes of clients, consumers and policy makers are changing. It is our duty as stewards to ensure that we invest for the long term with sensitivity, care and concern about the social and environmental risks and impacts on the world around us.

As always, we welcome your feedback on our work. If you have any questions or comments, please contact ukstewardship@firstsentier.com

Yours sincerely,

Mark Steinberg
CEO, First Sentier Investors

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Mapping against the UK Stewardship Code

Our approach to stewardship and our practices set out in this report are aligned with leading industry standards including the UK Stewardship Code 2020 and its 12 Principles as set out below.

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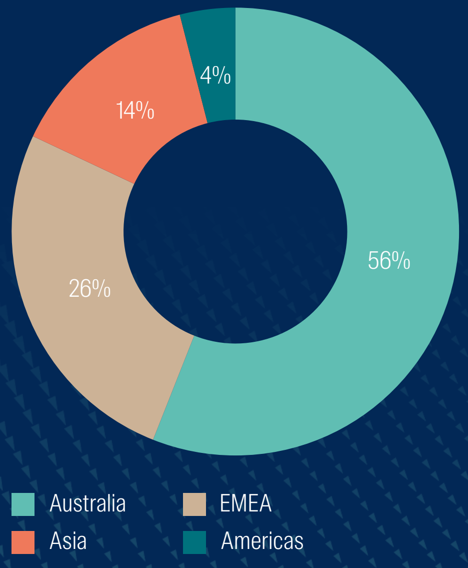
About us

We are a global asset manager that offers its clients high quality, long-term investment capabilities. We bring together 17 independent, specialist investment teams who share a commitment to responsible, sustainable investment.

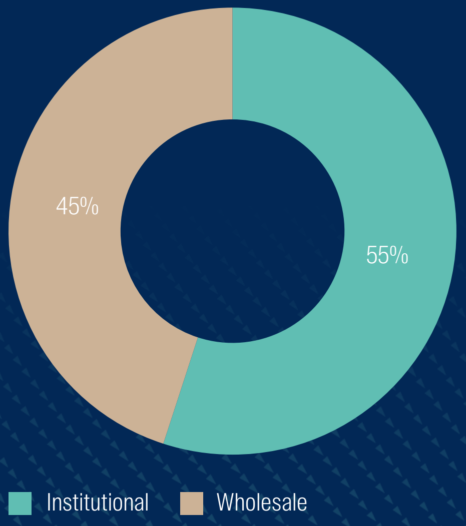
Together, we offer deep expertise across global and regional equities, cash and fixed income, infrastructure and multi-asset solutions. As of 31 December 2021, we managed USD 182.5bn of assets on behalf of institutional investors, pension funds, wholesale distributors and platforms, and financial advisers and their clients.

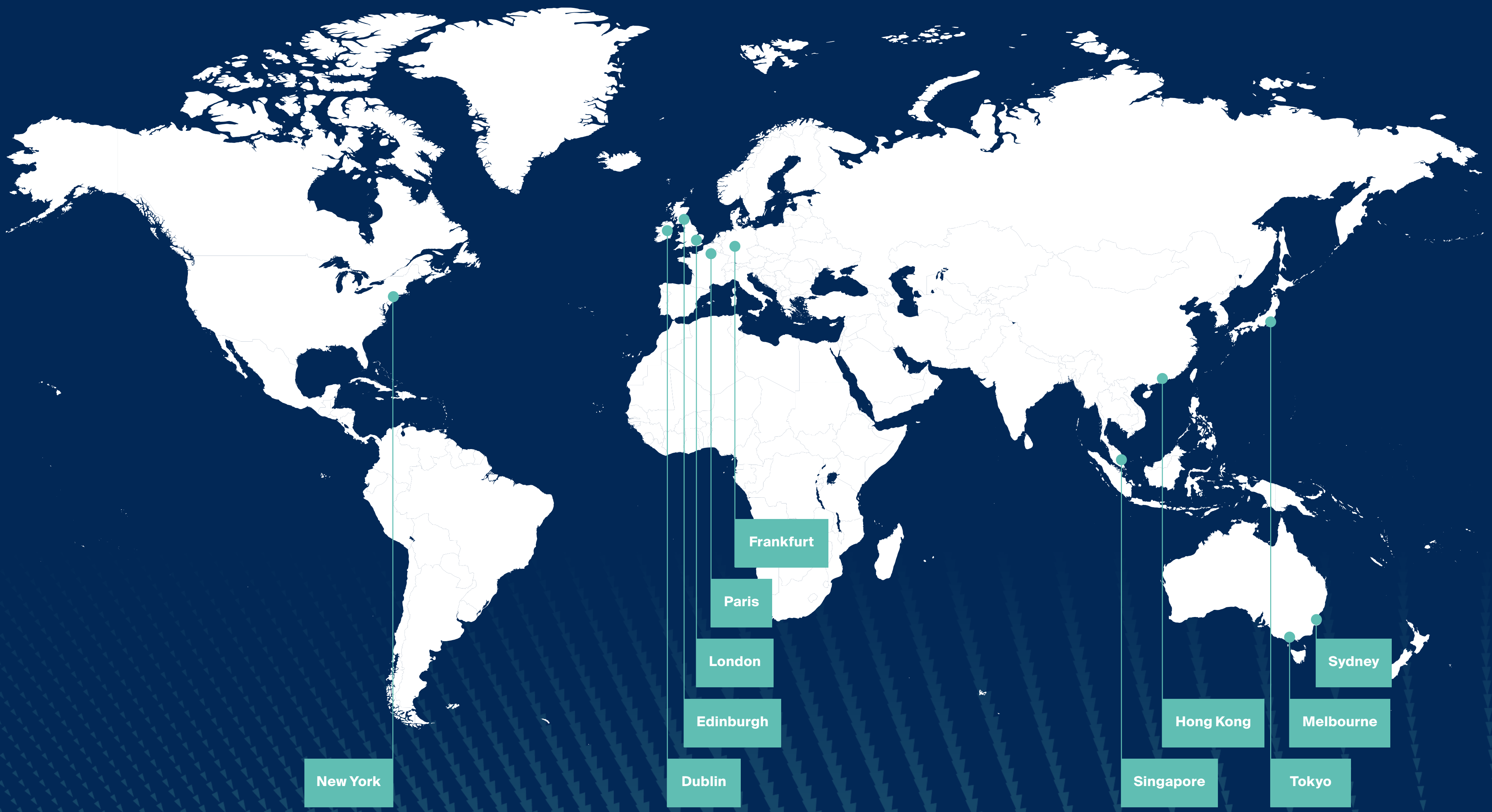
Our global reach

AUM by region



AUM by client segment





Our global investment capabilities by AUM

31 December 2021 (bn)	AUD	USD
Australian Equities		
Growth	16.6	12.0
Small and Mid-Cap Companies	4.0	2.9
Emerging Companies	1.0	0.7
Equity Income	0.5	0.4
Total	**22.1**	**16.1**
FSSA Investment Managers		
Asia Pacific, Global EM, Greater China, India and Japan		
Total	**51.4**	**37.4**
Stewart Investors		
Asia Pacific, Global EM, Europe Indian Subcontinent, Latin America, Worldwide		
Total	**35.0**	**25.4**
Real Estate and Infrastructure		
Global Property Securities	2.5	1.8
Global Listed Infrastructure	12.6	9.1
Igneo Infrastructure Partners	19.1	13.9
Total	**34.1**	**24.8**
Fixed Income		
Asia Fixed Income	6.0	4.3
Global Fixed Income	0.9	0.7
Global Credit	1.7	1.3
High Yield	0.2	0.2
Australian Fixed Income	14.1	10.2
Cash Management	56.6	41.1
Total	**79.5**	**57.8**
Multi Asset		
Objective-based investing Advisory services**		
Total	**6.3**	**4.6**
Systematic Equities		
Realindex		
Total	**28.3**	**20.6**
Total AUM*	251.0	182.5

*Based on November 2021 closing AUM excluding undrawn commitments
**AUD5.7bn/USD 4.2bn invested in other FSI capabilities
Source: First Sentier Investors as at 31 December 2021. Numbers may not add up due to rounding

Our investment teams have discrete investment autonomy and are joined in their commitment to RI and stewardship

FSI has been managing money with a long-term outlook for more than 30 years
We bring together independent teams of active, specialist investors in an affiliate style structure. All our investment teams operate with discrete investment autonomy and investment processes, in line with their investment objectives. Their processes include team specific and corporate governance voting practices. This tailored approach allows the teams to make judgement calls in line with their strategy objectives, while still benefiting from the support and governance structures provided by the wider business.

Our affiliate style structure brings together:

FSSA Investment Managers
An Asian and global emerging markets equities investor

realindex INVESTMENTS
A systematic equities manager

Stewart Investors
A pioneer in Asian, Emerging Markets, and Worldwide sustainable equities investing

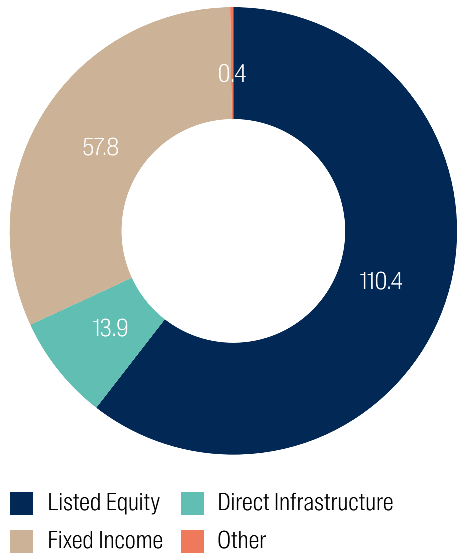
igneo Infrastructure Partners
Investor in direct infrastructure assets

Each is committed to the highest standards of RI and stewardship.

Our focus has been on preserving capital and performance through market cycles, rather than trying to achieve short-term gains. We make sure we deliver on this by offering portfolios that are actively managed for the long term.

You'll see an overview of our assets under management (AUM), by nearest whole percentage of portfolios under management, in the following table.

AuM by asset classes (US$ bn)



Source: First Sentier Investors, as at 31 December 2021

A shared purpose and culture that benefits the economy, the environment and society

Our shared purpose is to deliver sustainable investment success for our clients, employees, shareholder and wider society. Our vision is to provide world-leading investment expertise and client solutions. In this regard, we're led by RI principles based on our core company values: Care, Openness, Collaboration and Dedication.

Our shared values support our commitment to RI

Care
We care about our clients, society and each other
By fostering a culture of care internally, we will genuinely care for our clients and society – this is a key differentiator for our business.

Openness
We are open with each other and to different ways of thinking
We recognise the benefits of effective communication, and we openly challenge ourselves to do better.

Collaboration
We collaborate to deliver the best solutions
We recognise the business benefits of collaboration within and between teams. It's important that we collaborate with purpose to achieve the best outcomes for our clients.

Dedication
We are dedicated to being experts in our respective fields
Our expertise is what differentiates us, and our dedication to being the best is what our clients value about us.

Ongoing engagement with the companies we invest in improves our understanding of the issues our investments face. It also helps us drive improvements and, ultimately, protect or enhance the value of our investments

We know our individual and collective investment decisions are far-reaching. We believe that:

- ESG issues are sources of long-term risk and return, so weighing them carefully leads to better analysis and investment decisions
- Using ownership rights can increase performance and lower risk over time. Assets with well-managed ESG factors will produce higher risk-adjusted returns over the long term
- Integrating ESG into all investment decisions enhances the quality of our investment processes
- Poorly managed ESG issues create a negative long-term material impact on society and the environment

We share a commitment to achieving the best possible outcomes over the long term for our clients. Our culture prioritises acting in our clients' best interests and we structure our business to align our interests with theirs. Our principles of stewardship and RI are critical to maintaining and enhancing this culture.

We believe in active engagement and active ownership
Our commitment to RI and stewardship runs through all our investment capabilities. Each of our investment teams is a specialist in its respective field and sets its own investment philosophies and processes. In particular, all teams believe that ESG issues affect investment value, and that, as a leading global institutional investor, we can achieve better long-term investment outcomes through active engagement and by exercising the equity ownership rights we hold on our clients' behalf.

Effective, responsible active ownership has long been part of our fundamental approach to investment. We actively exercise voting rights and engage on issues related to factors like strategy, risk, performance, climate change, human rights and governance. You can read more about our voting record from page 58.

Ongoing engagement with the companies we invest in improves our understanding of the issues our investments face. It also helps us drive improvements and, ultimately, protect and enhance the value of our investments.

Effective responsible active ownership has long been part of our fundamental approach to investment

We are strengthening our culture of stewardship and sustainability

RI is a fundamental part of every employee's training and development from day one. To boost employee engagement in RI across our entire workforce, we have implemented a Responsible Investment Learning & Development Plan. It focuses on building knowledge and expertise across four key stakeholder groups within our business:

1. Leadership team and non-executive directors
2. Investment teams
3. Distribution, marketing and product teams
4. Operational teams

We held many other training sessions on ESG, RI and Stewardship during 2021. These include:

- Regular, informal 'Lunch and Learn' training and information sharing sessions. These cover a range of topics such as an overview of our RI Report, Stewardship and Governance Regulations, ESG market trends, investment team focus sessions and diversity and inclusion. Facilitated by internal or external specialists, these sessions are highly interactive.
- Modern Slavery Toolkit refresher
- Specialist training from an ethical trade consultancy on identifying and addressing modern slavery risks in portfolio companies and supply chain traceability
- Specific training conducted by our ESG research providers, including climate scenario analysis training for our investment teams
- Net zero investment training for our distribution teams
- Microplastic pollution
- Industry collaboration. We are also members of a number of industry bodies such as the UK Investment Association, UKSIF, EUROSIF, RIAA and the IGCC which offer industry-wide training and information on RI and stewardship. We encourage all our employees to attend these forums as part of their continuing professional development

As well as benefiting from our formal training programme, our investment teams get practical training by taking part in our ESG Impacts Committee and having regular contact with our specialist RI team. There's more information on our ESG Impacts Committee on page 15.

We set high RI expectations

We continue to brief our recruitment agencies on our commitment to RI. This is a prominent section on all the roles we advertise internally and externally. We also build RI into our on-boarding processes for new starters.

We believe that RI and stewardship training is important across all levels of the organisation, not just investment professionals. Our 2021 RI Strategy has a dedicated Learning and Development pillar that aims to embed RI and stewardship skills and awareness among leadership, investment and non-investment professionals. We believe this approach will generate positive behaviours and empower employees to become key RI and Stewardship ambassadors for the business.

In our first Responsible Investment report in 2007, we stated that one of the business benefits of signing up to the Principles for Responsible Investment was greater engagement from employees across our firm. This was true regardless of country or investment expertise. This level of engagement has remained unchanged ever since.

In 2019, we published our Global Code of Conduct. This reinforces our commitment to operating with the highest standards of professionalism to protect our investors' interests, and to behave ethically and responsibly as a firm. The Code sets out what we expect from everyone who works day to day with our clients and other stakeholders. Our people confirm they will maintain our standards when they join the business, and annually from then on.

We reward behaviours that reinforce our culture

Our Remuneration Policy is designed to reward employees for protecting and promoting the interests of our clients and shareholder. Specifically, it outlines a remuneration framework that:

- meets all applicable regulatory and legal requirements
- aligns with our vision, values and strategy
- aligns with the interests of our clients, employees and the community
- encourages responsible behaviour that supports long-term sustainability
- promotes sound, effective risk management (including the management of sustainability risks)
- avoids conflicts of interest
- supports a diverse and inclusive workforce

We actively manage all risks associated with measuring and delivering short-term and long-term performance, with a bias towards the longer term. We carefully manage all activities within our risk framework. We review, and may reduce, individual variable remuneration outcomes in the light of any associated performance and risk (including sustainability risk) outcomes.

We assess all our employees against risk and behavioural standards, and award deferred incentives if they've appropriately demonstrated our values. Our assessment makes sure that we base variable remuneration outcomes on both what was achieved (goals) and how it was achieved (values), and we apply adjustments for risk outcomes where necessary. We also assess how well employees have lived up to our RI and Stewardship Principles.

Integral to our annual remuneration governance process is reviewing short-term and long-term remuneration decisions through the lens of gender equity. Approvals depend on proven equitable outcomes.

We incentivise performance that integrates stewardship

We pay employees an annual salary and a discretionary bonus. We benchmark salaries annually to make sure they're competitive. The discretionary bonus rewards employees for exceeding their objectives up to a percentage multiple of their base salary.

We reward our investment professionals for outcomes based on investment performance and behaviours. The general criteria we use to calculate overall bonus payments for investment professionals are:

- Performance versus benchmark and competitor outcomes
- Achieving broader corporate objectives
- Achieving individual objectives including demonstrating our values

Many investment professionals also benefit from long-term incentives that align their remuneration with business performance.

The long-term incentives of most investment professionals are structured through co-investment instruments aligned to the underlying team portfolios.

This arrangement encourages long-term alignment with clients' interests. It also incentivises investment professionals to reinforce the team's investment philosophies and processes, which include assessing the sustainability risks that may affect investment performance.

All long-term incentive plans contain malus provisions. This allows us to reduce rewards, including to zero, for unsatisfactory performance, behaviours, risk management or compliance relevant to the role.

Our performance reviews assess commitment to sustainability

As part of our commitment to employees' learning and development, we encourage regular and open feedback throughout the year in addition to a formal annual performance review. This process gives both the employee and manager valuable opportunities to discuss performance positively and constructively, and includes a forum in which to agree goals and jointly create a development plan.

The formal review process includes:

- Risk assessment: to assess an employee's ability to manage risk effectively; and/or where a negative risk outcome occurred, to find out whether it stemmed from individual actions and/or behaviours
- Values assessment: to assess an employee's behaviour across the values of Care, Collaboration, Dedication and Openness
- Business outcomes: to assess key performance indicators related to clients, business and people, as well as role-specific metrics

The majority of professionals in client facing roles within our company are female

We harness diversity in all forms
As investors, we encourage the companies we invest in on behalf of our clients to achieve greater diversity. We believe this is important in their corporate decision-making, long-term performance, and ability to deliver sustainable and attractive long-term investment returns.

We recognise that different attributes, life experiences, backgrounds and preferences including gender, ethnicity, disability, age, cognitive diversity, sexual orientation, family status and educational experience lead to genuine diversity that can help achieve better outcomes for our clients.

That's why diversity and inclusion are embedded throughout our organisation. We recently launched our Diversity and Inclusion Commitment, which sets out our approach. It reinforces our ongoing commitment beyond our transition to new owners Mitsubishi UFJ. It also gives us a platform for discussions around what we've learnt about diversity and inclusion.

The asset management industry continues to face challenges relating to the underrepresentation of a diverse workforce, particularly at senior levels and in senior investment management roles.

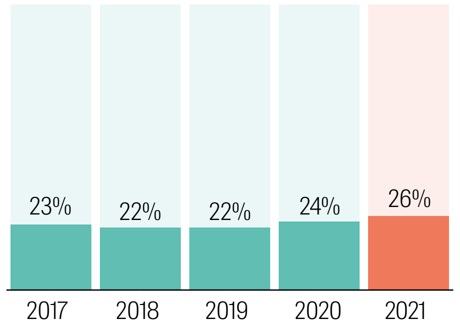
Achieving greater diversity across different areas and levels of our business is arguably even more important if we're to stay true to our values of responsible investment and stewardship. We know it will take time to bring about sustainable change in our business, but we're committed to making that a priority.

In 2021, we made progress on a number of key areas within diversity and inclusion, which we continue to build on. For example:

- We appointed a Global Chief People and Culture Officer. This role sets the strategy for attracting, engaging and developing employees
- We initiated employee communities across six areas: gender, ethnicity, neurodiversity, LGBTQ+, socio-economic and disability
- We celebrated Pride Month during June with an internal visual campaign, adapting our external logo and profiling a number of staff and allies
- We conducted our first Diversity Census. This was designed to help us better understand the composition of our global workforce and identify areas for improvement
- Over the last 5 years, the percentage of our female employees in the upper and second pay quartiles has increased by 7.5% and 3.4% respectively. Over the same period, our median pay gap has reduced by 6.1%

We're working to improve female representation within our firm, as well as engaging with companies about the number of women they have in leadership roles. The majority of professionals in client facing roles within our company are female. At the end of December 2021, women represented 29% of our investment management roles – 5 percentage point increase from the previous year. Our Australian based investment teams have set a target for women to comprise at least 40% of our investment management staff by 2033.

Female representation within investment management roles



Source: First Sentier Investors, as at 31 December 2021

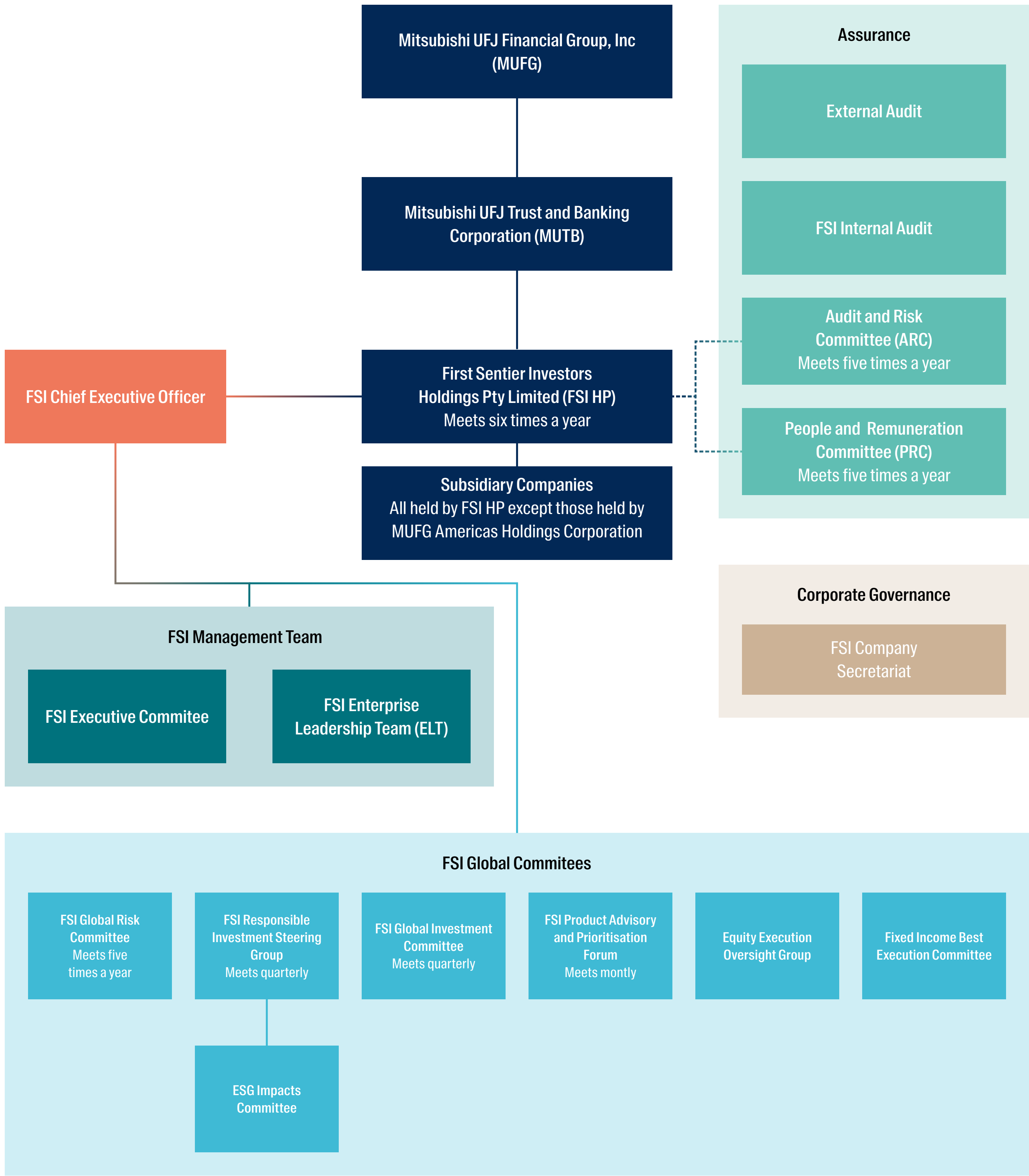
Currently 40% of positions on our management and executive committees are held by female employees. At a portfolio level, many investment teams are actively monitoring gender diversity, including it in their investment criteria and engaging with companies they believe to be falling short.

We've also invested time in rebalancing our subsidiary board membership numbers. This is an area in which women can take part outside their defined areas of expertise. By gaining exposure to more senior business representatives and adding more variety to the skills on our subsidiary boards, they benefit themselves, our business and our clients. Female employees now account for 40% of positions on our UK boards.

Strong self-governance, effective policies and clear processes

We've built our stewardship and responsible investment strategy on a strong governance framework. This framework helps us align all our practices and initiatives across our entire firm. It also enables us to make the most of the diverse resources and expertise of our independent teams. Ultimately, it equips us to make informed decisions that improve outcomes for clients.

Our Governance framework is wide-ranging and in-depth



RI Steering Group

Chaired by our CEO, Mark Steinberg, this group meets quarterly. It includes our Global Head of Investment Management and investment team heads. The group sets our top-down direction and strategy for RI and approves the RI and Stewardship policy framework for the business.

Global Investment Committee

Chaired by our CEO and including our Global Head of Investment Management this committee meets quarterly. It monitors investment risks including ESG related risks and other performance issues for investment teams and portfolios.

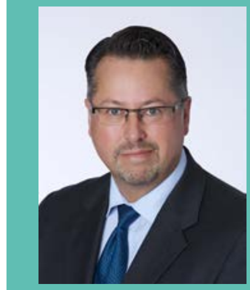
Specialist RI Team

This team engages with and coordinates the entire business to deliver the RI strategy. Its work involves a significant amount of internal engagement, communication and training globally across multiple topic areas.

ESG Impacts Committee

This active knowledge-sharing forum focuses on issues – like the climate emergency and human rights risks – that cut across multiple investment teams. It identifies research areas that will deepen our understanding of how ESG issues affect investment and business performance. Its membership comprises representatives from each investment team. The RI representatives are a key pillar of our governance strategy. The teams they represent also integrate ESG into their investment processes in various different ways.

In 2021, the ESG Impacts Committee continued to focus on modern slavery through the Modern Slavery Working Group. The group met to review the Modern Slavery Toolkit (developed in 2020), identify areas for collaboration in 2021 and areas where additional learning and development was required. This formed the basis for the Responsible Investment team's work on this topic in 2021.



Will Oulton
Global Head of Responsible Investment

Based in the UK, Will defines and delivers FSI's RI and stewardship strategy globally. It's his responsibility to advance our understanding of how ESG factors affect long-term investment value. He also develops our thought leadership programmes and manages the RI Governance structure for the business. He Chairs the First Sentier MUFG Sustainable Investment Institute.

Before joining us, Will was Head of Responsible Investment for Mercer Investments across EMEA, advising institutional asset owners on environmental, social and corporate governance. Before that, he was Director of Responsible Investment at FTSE Group, leading the development of FTSE's global sustainability services. He has over 20 years' experience in sustainable and responsible investment.

In December 2015, he was appointed Chairman of the European Sustainable Investment Forum (EUROSIF). He is a fellow of the Royal Society of Arts, an Honorary Associate Professor at Nottingham University Business School's International Centre for Corporate Social Responsibility, Expert Panel Member of the Prince's Accounting for Sustainability Project (A4S), and sits on a number of investment industry advisory boards and committees. He is also a Trustee Director of the UK's Marine Conservation Society.

Kate Turner
Deputy Global Head of Responsible Investment

Kate supports the governance of RI and the integration of ESG factors across the organisation. She engages with clients and stakeholders in Australia and New Zealand to communicate our approach to RI. Before she joined our team, Kate was an Associate Director at Sustainalytics, leading its business in Australia and New Zealand. She also held roles at ICBC Standard Bank Plc in London and Baker McKenzie in Sydney.

Kate holds a Bachelor of Laws degree and a Bachelor of Arts degree in International Studies with First Class Honours and University Medal from the University of Technology, Sydney.

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Ken Mitsutani
Director, Responsible Investment
Ken is based in UK and was recently appointed Director of Responsible Investment, a dual role split between FSI and the First Sentier MUFG Sustainable Investment Institute. Ken's direct involvement with the Institute will help to further develop its strategy, operations and management. Prior to this Ken was Head of Responsible Investment, EMEA supporting EMEA-based investment professionals, as well as distribution and client-facing teams in order to promote FSI's RI capabilities. He joined us from Mitsubishi UFJ Trust and Banking Corporation (MUTB) where he held a variety of investment and business roles, including Chief Manager of the Global Asset Management Business Division of MUTB, based in Tokyo. During a career that spans more than 20 years, he's been particularly focused on global asset management businesses. Ken holds a Bachelor of Economics from The University of Tokyo.

Joanne Lee CFA
Responsible Investment Specialist, Asia
Based in Hong Kong, Joanne Lee works on the strategic development and implementation of FSI's RI initiatives in Asia with a particular focus on biodiversity. In close collaboration with investment teams in Asia, she supports corporate engagement, capacity building, research, and compliance. Prior to joining FSI, Joanne was a Sustainable Finance Specialist at WWF, driving the research and advocacy on net zero portfolio alignment, natural capital and green financial solutions. She also worked on renewable energy financing at the International Renewable Energy Agency (IRENA) in Abu Dhabi and climate consultancies in the US. Joanne is a CFA Charterholder with a Master's degree in Environmental Studies from the University of Pennsylvania.

Will Bartlett CFA
Responsible Investment Analyst
Will is a Responsible Investment Analyst in the RI team. Will supports the governance of RI and the integration of ESG factors across the organisation. He also supports Kate in her engagements with clients and stakeholders. Before he joined our team, Will was an Associate at Westpac Institutional Bank, supporting the Sustainable Finance and ESG teams in transaction origination and execution, sustainability reporting and the broader ESG strategy. Prior to this, Will was a Portfolio Analyst at Charter Hall. He is a CFA Charterholder with a Bachelor of Commerce (Liberal Studies) from the University of Sydney.

Independent and objective assurance within a three lines-of-defence system of risk management and control underpins our governance process.

Internal Audit (IA) provides independent and objective assurance over risk management, control and governance processes. Audits of the control environment are selectively performed on a risk-based approach across areas of FSI globally. IA assesses the adequacy and effectiveness of controls implemented by management and reports its findings to the Board, the Audit and Risk Committee and the Enterprise Leadership Team.

Checking our investment teams adhere to RI policy

IA assesses stewardship activity and checks how each investment team aligns with our Responsible Investment (RI) policy and how our control processes monitor alignment with our RI Policy. IA then reports its findings to relevant stakeholders across the firm so we can continuously improve. IA has provided assurance around external reporting, such as the Principles for Responsible Investment (PRI) Reporting.

Independent oversight of investment activities

The Investment Product Research and Assurance (IPRA) team is key to our oversight process. The team conducts independent risk oversight of our investment activities. This includes quantitative assessments, involving independent analysis, to assess the risk and return characteristics of the underlying portfolios and adherence to the stated investment approach. Industry standard methodologies are utilised to investigate and report on a number of aspects including emerging standards relating to ESG characteristics.

We constructively challenge our investment teams

Quantitative reviews are reinforced by qualitative assessments with IPRA conducting 'challenge' meetings with each investment team to fully understand the investment approaches followed.

These will cover RI related activities including ESG integration, proxy voting and company engagement. IPRA collaborates closely with the RI team to ensure relevant ESG issues are identified and investigated with investment teams.

Assurance review to Stewardship report

We are committed to ensuring our stewardship reporting is both accurate and a genuine representation of our philosophy on stewardship matters. The extensive use of case studies throughout our Stewardship report ensures our approach is articulated in a highly relatable and easy-to-understand manner.

Validation that our reporting is fair and balanced is provided by both internal and external reviews. Internally, our Chief Executive reviews our annual Stewardship report in addition to senior members of our Responsible Investment team and other senior stakeholders. Further, we ask two of our UK based independent non-executive directors to undertake further reviews. All feedback and insight is considered and incorporated into this report.

Comprehensive ESG evaluation

The breadth of ESG risks IPRA evaluate across different categories is comprehensive, including:

- Climate risks (carbon intensity, net zero alignment, climate scenario analysis)
- ESG assessments (via ESG data vendors)
- Voting and engagement activity
- Collaborative corporate engagement activities (e.g. modern slavery)

Sharing results with senior management

Once IPRA have concluded their quantitative and qualitative investment assurance activities, it produces a quarterly Global Investment Committee report combining its overall findings. These assessment results and findings are also shared with our boards of directors. The report summarises the detailed analysis undertaken on each investment portfolio, with commentary on key observations from IPRA on each investment mandate and pooled funds assessed.

We improved our suite of RI policies

Key to good governance are the policies that underpin it. Our policies set clear expectations for our people.

We've set out our full set of policies on our website and in our Global Responsible Investment and Stewardship Principles and Policy (the 'Policy').

This one consolidated document builds on and improves our previous suite of RI policies. It explains our approach to RI and what that means to us. It includes a set of guiding principles for our investment teams as well as specific requirements for ESG integration, corporate engagement, proxy voting and investment screens.

It also covers our approach to issues such as the climate change, deforestation, the Sustainable Development Goals, human rights and modern slavery.

We completed a comprehensive review of the Policy in 2021 in light of increased regulation, feedback from regulators and industry best practice. The enhanced policy was published in early 2022.

All our employees must understand conflicts of interest.

We have a clear policy and process for managing conflict
Conflicts of interest can arise from the interaction between different business units and affiliates of FSI, their clients, external parties and personal conflicts with employees. Conflicts can also occur between FSI and our shareholder, Mitsubishi UFJ Trust and Banking Corporation, a wholly-owned subsidiary of Mitsubishi UFJ Financial Group, Inc ("MUFG").

Our overarching commitment to always work in the best interests of our clients is particularly relevant in a conflict of interest situation.

The following scenarios illustrate where perceived or potential material conflicts may arise in the ordinary course of our business:

- FSI clients who may be issuers of securities or proponents of shareholder resolutions.
- Strategic business partners, critical vendors or key distributor clients who may be issuers of securities or proponents of shareholder resolutions.
- Non-executive directors of our investment trust clients who may also serve as non-executive directors of investee companies.
- Employees/investors who may have a family, personal or professional association with an investee company.
- Securities of MUFG or FSI investment funds held in portfolios managed by FSI.
- MUFG or FSI board members who may serve as senior executives of investee companies.
- Significant MUFG investors or clients who may be issuers of securities held in portfolios managed by FSI.

We apply our Global Responsible Investment and Stewardship Policy and Principles, which operate to protect and enhance the economic value of the companies in which FSI invests on behalf of clients, and are designed to address the possible conflicts of interest that may arise through proxy voting.

In the event a Material Conflict is identified, the Business Head/Managing Partner or his/her nominee shall determine how to vote the proxy in consultation with Compliance, and in such cases shall keep adequate records to demonstrate that the resulting vote was not the product of the Material Conflict(s).

FSI maintains a Conflicts Register, which identifies actual and potential conflicts of interest that exist within the firm and the procedures and controls that have been designed to manage these conflicts. This register is subject to annual review and approval by FSI's internal governance committees.

It is the responsibility of each employee to identify and report potential conflicts as laid out in the firm's Global Conflicts of Interest Policy and Global Code of Conduct. Each employee must submit an annual declaration to confirm they have adhered to the firm's Global Code of Conduct. Training is provided on the Conflicts of Interest Policy during employee inductions and annually thereafter.

First Sentier Investors | **Stewardship report 2021**

All investment teams are prohibited from investing in manufacturers of controversial weapons

We ban investment in certain companies and sectors
Whilst we rarely use firm-level negative screens as part of our approach to responsible investment, exclusionary screens may be appropriate at a product level, or specifically required due to an individual client mandate.

Our approach to responsible investments has at its core a commitment to:

- uphold fundamental principles of human rights;
- support international conventions and standards as enshrined in widely adopted treaties and codes of practice;
- uphold the highest standards of environment stewardship.

On occasion, a company's activities may be in conflict with these commitments. Where this is the case, we may enforce a company-wide ban on investment (across both debt and equity) in this company, or within a particular sector. Such a decision is made by the RI Steering Group considering the above factors, in addition to fiduciary duty, client sentiment and the long-term sustainability and investment risk.

This policy is evidenced by our approach to companies involved in the manufacture of certain types of controversial weapons and companies involved in the manufacture of cigarettes and other tobacco products.

All investment teams (across all products, regions and asset classes) are prohibited from investing in manufacturers of controversial weapons (anti-personnel mines, cluster munitions, biological and chemical weapons, depleted uranium, certain nuclear weapons and white phosphorus munitions). This ban further applies to investments in companies involved in manufacturing cigarettes and tobacco products. Both our RI and compliance team work together to implement this policy.

The list of excluded companies is based on research from credible third parties in the case of the manufacture of cluster munitions and antipersonnel mines. For those companies involved in the manufacture of cigarettes and other tobacco companies, research is obtained from within the countries these companies operate. This list is reviewed annually by the RI Team and endorsed by the RI Steering Group and is published on our website.

We source ESG information from a wide range of firms

We subscribe to ESG research from a series of third-party providers (currently Sustainalytics, MSCI, RepRisk and ISS ESG). This information is used by different teams in different ways – there's no one standard approach to ESG integration across the firm. We integrate ESG research and data from our external research providers into our data warehouse and investment systems, including into our ESG Portfolio Monitor tool. We also make this data available to investment teams through third-party systems that the teams use wherever possible, such as Factset, Aladdin and Bloomberg.

We engage with our research providers on the quality of their research and give feedback where we disagree with a finding. We also work closely with NGOs to source and use publicly available data, such as the Global Slavery Index and KnowTheChain benchmark data, which are key inputs into our modern slavery risk assessments.

While this information is available to and widely used by our teams, our primary information source is the analysis our investment teams carry out. For our active equity teams, a key component of this analysis is company engagement.

We use trusted proxy advisers

We use a selection of proxy voting advisers (currently Glass Lewis and Ownership Matters) to advise on and deliver our proxy votes. However, we should stress that all voting and all company engagements are undertaken directly by ourselves. Our investment teams retain full control of all voting decisions and may decide not to follow recommendations made by these advisers. A very small number of our clients wish to vote directly themselves, however often these clients will ask our advice prior to exercising their vote.

Every portfolio is on-boarded to our Proxy Voting system, Glass Lewis. While Glass Lewis will provide a recommendation on how to vote, the voting decision is made entirely by the investment manager for each portfolio who has direct access to the Proxy Voting system. Very occasionally we abstain/not vote where there is a conflict of interest e.g. with affiliate holdings. All securities held are maintained by Northern Trust as our master custodian who monitor the shares we hold. Corporate action decisions are notified to portfolio managers via the Northern Trust portal.

The head of each asset class, or delegate, is responsible for reviewing all company resolutions and making an appropriate and consistent recommendation in line with corporate governance guidelines and principles. With every portfolio we manage in Glass Lewis, we can readily monitor voting decisions made ensuring these are fully in line with our policies.

We undertake quarterly monitoring, including measurement against key performance indicators, on Glass Lewis ensuring they are performing in line with agreed KPIs. As part of this process, we review our proxy voting advisers on various metrics including security and cyber security, compliance and risk, governance, disaster recovery and business ethics.

Portfolio managers take their voting responsibilities extremely seriously as this is their opportunity to influence key decisions made by companies and to support their direct engagement with company management teams.

First Sentier Investors | **Stewardship report 2021**

Flexing our approach to ESG issues

Given the variety of asset classes we manage, the number of countries we operate across and the size of our holdings, it's essential we apply a bespoke approach to assessing each individual investment.

That's why each listed equity team has its own tailored process for identifying and assessing the relevance and materiality of ESG issues for its specific asset classes. The teams always focus on material ESG issues that could affect investment value, particularly over the long term.

Our teams tailor their RI approach around three core factors
Active ownership, ESG integration and screening help boost our transparency and accountability.

The way that each investment team incorporates these factors into its investment process has evolved over time. Their diverse approaches allow us to share ideas, develop our knowledge and learn from each other's successes and mistakes. This is a key strength of our overall business.

We report on our approach and progress both internally to the groups and committees already outlined, and externally – mainly through our annual global Responsible Investment Report, on our website and through relevant social media channels.

How each team approaches ESG
Given the variety of asset classes we manage, the number of countries we operate across and the size of our holdings, it's essential we apply a bespoke approach to assessing each individual investment, as ESG integration and stewardship varies significantly depending on this context. For example:

- **Policy settings:** engagement on modern slavery with a UK based company that reports under the Modern Slavery Act 2015 will vary significantly from engagement with an Asian company that is being introduced to the term modern slavery for the first time.

Similarly, climate change regulation will influence the type of transition risk a company is facing. A European utility is going to decarbonise at a different rate to a US or Australian utility and this must be taken into account when engaging with a company on this issue.

- **Escalation:** our listed equities teams have the right and responsibility to vote, which forms a key part of their escalation toolkit. Our fixed income and credit teams do not have voting rights, so when escalating issues, they need to focus on different tools, such as collaborative engagement. However, in addition to engagement with companies, our fixed income and credit teams have opportunities to engage with counterparties, credit rating agencies, and government, semi-government and supra-national issuers.
- **Company size:** our small cap investee companies may have less resources to devote to sustainability disclosure, so our teams need to engage extensively with them to ensure that they grow sustainably.
- **Other asset class considerations:** our Igneo Infrastructure Partners team takes significant ownership stakes in portfolio companies, which ensures board representation and enables the team to engage directly with all portfolio companies and proactively manage all aspects of the business, including ESG performance. Systematic and multi-asset strategies that take a top-down approach, are particularly focused on exercising their ownership rights in relation to proxy voting and collaborative engagement.

Here, each investment team outlines its own tailored approach.

For all active equity teams, company engagement is a key source of insights into ESG risks and opportunities

Equities

Australian Emerging Companies
The team seeks to generate strong long-term performance within a framework of high ESG awareness. The team invests in companies who have a strong or improving track record of ESG practices within their respective sectors. Their ESG analysis for each of the companies under research and investee companies underscores their understanding of the financial and reputational impact ESG has on businesses.

Australian Equities, Growth
The team's long-term investment horizon and focus on quality, growth companies fundamentally requires sustainability in business models and practices and is inherently well suited to strong ESG outcomes. They believe that ownership and engagement for change is more effective and higher value-adding for their clients than negative screens.

By maintaining an open mind, they retain the ability to engage on all stocks – with the aim of participating in collaborative discussions with management and the board that influences continuous improvement over time. Identified risk factors are used to assist in developing the quantitative and qualitative assumptions of our analysts in their assessment of industries and stocks. The team's ESG analysis and proprietary ESG rating system can and does impact potential portfolio weights.

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
ESG considerations influence all the team's investment decisions, given that sustainability is one of the six key criteria used in its evaluation of companies. ESG issues are frequently raised with senior management and board members during the team's extensive engagement with companies. These discussions make an important contribution towards the team's investment view. Where ESG factors are determined to have a material impact on profitability, they are quantified and can influence other factors, most directly in the valuation and financials of the company. These considerations ultimately influence the active positioning of stocks in the portfolio.

FSSA Investment Managers (FSSA IM)
Within FSSA, ESG and sustainability are not just labels, but a set of values by which they operate. Their investment universe consists of countries which are among the most vulnerable to environmental challenges, suffer from severe inequality, and can be highly susceptible to corruption.

For these reasons, since the inception of the team, the focus has been on identifying quality companies and management teams that address these challenges head-on and, as a result, deliver better outcomes for all stakeholders. FSSA invest in companies that contribute meaningfully to sustainable outcomes and where there is the management foresight, technology and ideas to address changing societal and environmental expectations.

Companies that do not deliver sustainable value for their customers, employees, suppliers and the larger community are unlikely, in FSSA IM's view, to be rewarding long-term investments.

It is the responsibility of each analyst to identify ESG opportunities and risk and to incorporate these into all bottom-up company analysis, valuations, stock selection and engagement.

Stewart Investors Sustainable Funds Group
Stewart Investors' first strategy was launched in 1988 and its first dedicated sustainability strategy was launched in 2005. The Sustainable Funds Group 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.

The Sustainable Funds Group aims to generate strong long-term risk-adjusted returns by investing in high quality companies that are well-positioned to 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. The team seeks to improve sustainable outcomes by investing in companies contributing to positive solutions, avoiding businesses linked to harmful activities, and engaging and voting for change.

Fixed Income

ESG issues can have a significant bearing on default risk. Historically, poor corporate and regulatory governance have been recognised contributors in most corporate failures. Consequently, ESG risks are identified as part of Fixed Income's bottom-up credit research process to help manage default risks in bond portfolios. The Fixed Income team's ESG assessment has an important bearing on proprietary internal credit ratings that are assigned to every credit we review, in turn influencing portfolio construction decisions. The ESG assessment is also a critical factor in determining whether or not portfolios participate in a new bond issue. As well as this bottom-up research, ESG factors are considered as part of its position sizing discipline.

A focus on sustainability is a natural extention of having a long-term investment horizon

Infrastructure

Global Listed Infrastructure
ESG issues are fundamental to infrastructure companies, given they have significant service obligations and moral accountability to the communities in which they operate.

ESG-related criteria have always been fully incorporated into the Global Listed Infrastructure team's investment process, and account for 25% of the quality score assigned to each stock that the team researches and analyses. Company engagement, to encourage ESG best practice for the benefit of investors, is a key part of the team's investment approach.

Igneo Infrastructure Partners
Igneo Infrastructure Partners' strategy is to build a portfolio of mature, operating infrastructure assets that can deliver stable returns over the long term for their investors. They have 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 issues are considered at every stage of the investment process.

The team has the distinct advantage of being able to engage directly with its portfolio of companies via board representation and workshops with management, giving it the opportunity to set ESG targets, develop initiatives and help drive cultural change.

Property

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 research, in-house research and direct engagement with companies remains the most important source of reference for ESG information, given the team's intricate understanding of the global property securities sector.

Multi-asset

Multi Asset Solutions
The team's approach to RI is integrated within the investment process of the objective-based strategies and can be incorporated into bespoke mandates. The RI approach encompasses ESG considerations as well as the use of ethical screens based on numerous themes which can exclude specific 'red flag' companies or industries, such as those involved in fossil fuels. These screens are applied consistently across all asset classes according to these themes. Furthermore, the team incorporates ESG considerations when voting on all company resolutions where it is able to do so.

Systematic equities

Realindex Investments
Responsible investment and stewardship principles are important to its approach to investment management and an area of ongoing research. The team's approach to ESG integration can be grouped into three key areas: 1) encourage companies to effectively manage the ESG risks and opportunities facing their businesses through proxy voting and engagement; 2) understand ESG risks in portfolios; and 3) integrate ESG factors and considerations into investment processes to enhance performance and/ or manage risk.

Engagement

For all active equity teams, company engagement is a key source of insight into ESG risks and opportunities. Analysing and assessing a company's ESG issues help us identify risks that may not show up in its financial statement.

First Sentier Investors | **Stewardship report 2021**

Our approach to ESG engagement is highly proactive

We have a clear policy for engagement and escalation

Where we identify a potential adverse impact on a company's sustainability, our investment teams engage with that company in line with our commitments in the active ownership section of our Responsible Investment and Stewardship Policy and Principles. Our teams can engage directly or in collaboration with other investment institutions.

If the engagement doesn't mitigate or reduce the adverse impact on sustainability, the investment teams have a number of escalation options:

- Report the issue to the RI team who will escalate internally accordingly, including by reporting to the Global Investment Committee and/or RI Steering Group
- Write to or meet with the chairperson or lead independent director
- Vote against directors they feel are not providing appropriate oversight or consider filing or supporting a relevant shareholder proposal
- Engage collaboratively with other investors
- Make their views public
- Reduce or divest the holding of the issuer

Here's how a few of our investment teams have put our group-wide engagement and escalation policy into action.

Asian Fixed Income

Ongoing engagement forms a critical part of our research process. We seek to influence issuers in which we invest using direct company meetings to assess ESG risks. Further engagement includes attending investor days and roadshows. These occasions present the opportunity to engage and raise relevant ESG-related issues. In the great majority of instances, issuers are receptive and constructive. Any ESG concerns are logged within our proprietary Investment Opinion Network, a database available to the entire Fixed Income team globally and informs investment decisions.

Igneo Infrastructure Partners

We have the distinct advantage of being able to engage directly with our portfolio companies via our board representation and/or workshops with management. This direct involvement not only allows us to drive cultural change and set ESG KPIs. It also enables us to maintain an open dialogue between managers and owners so that long-term value creation and protection are aligned. We regularly run workshops and committees to carry out deep-dive analysis; and we debate opportunities and new initiatives. In a normal year, we also visit business sites in our capacity as owner, board member and/or board committee member.

FSSA Investment Managers

We identify engagement issues through our investment research, analysts' meetings and the ESG news platform. Company engagement is critical in helping us understand a company's history, culture, long-term strategy and governance structure. This level of engagement allows us to assess whether management truly are good long-term stewards. Through evaluating ESG factors, we are able to make a decision on whether these factors improve or negate the investment case. Close company engagement and tracking managements' response to the ESG-related concerns we raise is core to our investment approach.

Global Property Securities

Our approach to ESG engagement is highly proactive, particularly with regard to corporate governance issues. We regularly communicate with CEOs and board members where appropriate in order to influence and enforce change where required.

How our teams capture ESG engagement

Historically, we've found it challenging to report on how we engage with companies and issuers beyond detailing this engagement in case studies. This is partly because engagement is often integral to the long-term relationships our teams develop with companies; and partly because each team operates independently and maintains its own meeting databases.

Effective active engagement is not a prescriptive process. Our approach is adaptive and led by the nature of the issues involved, the strength of our relationships with management as well as any relevant company or sector specific factors. For these reasons, engagement can be either direct or collaborative:

- **Direct engagement**. The most common approach involves our investment managers meeting directly with senior company management. These are most often in-person meetings with senior management, typically at CEO, CFO or head of investor relations level. We prefer to meet in-person where possible, as it is easier to evaluate the strength of commitment by company management.
- **Collaborative engagement**. In certain circumstances active engagement is more likely to produce positive outcomes when undertaken as part of a wider group. We collaborate with other parties, normally other investor groups, where we believe group engagement will be more effective. We have participated in collaborative engagements spanning many aspects of ESG. More information can be found in the Collaborative Engagement section of this report.

Our investment style is predominately bottom-up, fundamentally driven investing. We place a high weighting on quality of management and the strength of business models. Frequent direct engagement with our investments is critical: we need to ensure the business case remains intact and we understand the strategic decisions being made by company management. We should stress that these engagements often highlight positive opportunities as well as ESG-related risks.

The engagement process is constantly evolving with several of our investment teams improving throughout 2021 how they engage with companies:

Stewart Investors

The heart of Stewart Investors investment philosophy is the principle of stewardship – careful, considered and responsible management of clients' portfolios. Sustainability factors are integral to the team's investment process. The investment team is responsible for all company analysis including sustainability, identifying engagement priorities, monitoring and engaging with companies, and making all voting decisions. The team's engagement approach is active, not activist – as long term investors, they believe in the need for patient and persistent engagement. This is not a box ticking exercise and the team do not outsource engagement to a third party. Stewart Investors want to understand the commitment and approach of key decision-makers in the business, including their attitudes towards sustainability issues. The team improve their understanding of these commitments through consistent meetings with management teams as well as commissioning research on complex issues such as palm oil supply chains and conflict minerals in the semiconductor ecosystem, amongst others. Through their engagements, they seek to support changes which will improve the quality of the companies they invest in, reduce risks, and enhance long-term returns for clients.

FSSA Investment Managers

Our GEM equity business, FSSA, conduct over 1,500 company meetings a year. These engagements allow the quality of management to be assessed. FSSA believe quality management understand that progression on ESG issues leads to sustainable and successful business outcomes. Due to the importance placed on direct company engagement, FSSA did not allow inevitable COVID-related restrictions to limit their company interactions. Through a combination of in-person and virtual meetings, the total number of company engagement in 2021 remained consistent with previous years.

Case study
Tomra – exiting tobacco sorting business

Team
- Stewart Investors Sustainable Funds Group

Issue type
- Company strategy – addictive products

Relevant SDG
- SDG3 – Good Health & Well-being
- SDG12 – Responsible Consumption & Production

Background

Tomra is a Norwegian-listed provider of automated recycling, reverse vending and sensor-based sorting technology used mainly in the agricultural, food and mining sectors.

In 2012, Tomra acquired BEST, a food-sorting specialist. As part of this acquisition the company inherited a tobacco sorting business. Although the revenues from this business were small (less than 2% of total Tomra revenues), we felt the ethical and reputational risks to the company outweighed any commercial gains of continuing to operate in the tobacco industry.

Objectives

Given our concerns, we engaged directly with Tomra company management to encourage them to embark on an orderly exit from the tobacco sorting business. We felt this was important in order to safeguard the reputation of Tomra as a sustainability leader.

Process

Our engagement with Tomra on this issue extended over several years and included direct meetings with management as well as communication via emails and formal letters. We reiterated our concerns that Tomra's sorting technologies were continuing to be used by tobacco companies.

During these discussions, management confirmed that the tobacco sorting business was not a strategic priority for them. They also noted that they had not made any new investments into the tobacco sorting segment. In 2019 the company agreed to start an internal process to explore potential exit strategies which, in turn, would form an exit plan for these operations.

At the start of 2020, the company appointed a new Head of Tomra Food with responsibility for setting and executing the strategic direction for the division, which included tobacco.

Outcomes

In early 2021, the company confirmed that they would wind down the tobacco business. No new tenders would be issued but they would continue to fulfil their after-sales service obligations to existing customers.

We consider this positive progress.

Next steps

The company confirmed that they have exited from the tobacco sorting business. Our engagement with Tomra on this activity is now closed.

No stock mentioned in this presentation constitutes an offer or inducement to enter into any investment activity

11 SUSTAINABLE CITIES AND COMMUNITIES

Case study
HDFC – improving responsible lending disclosures

Team
- Stewart Investors Sustainable Funds Group

Issue type
- Governance

Relevant SDG:
- SDG11 – Sustainable Cities & Communities

Background
HDFC is an India based provider of housing loans and one of the most trusted brands in the country. We first met with company management in 2015 to discuss their approach to corporate lending and construction finance. HDFC had a conservative approach to lending policies related to governance and customer financial track records. However, we believed there was scope to further encourage incorporation of ESG factors and risks into loan assessments.

Objectives
We sought to encourage the company to improve their understanding of climate and water risk on their loan book. We further encouraged them to develop a formal ESG and responsible lending policy.

Process
For several years we have been engaging with the company via emails, letters and meetings to encourage them to improve their responsible lending disclosure.

The company have been open to discussion on their ESG reporting and policies and have since produced a Social Initiatives Report and Independent Review of HDFC's Sustainability Initiatives. We were pleased that in 2020 the company launched their Responsible Lending Framework, and have spent a great deal of time integrating sustainability into their everyday lending processes.

Outcomes
Actions taken by HDFC include: working with local branch managers to capture feedback, training staff and reporting progress to their Chief Credit Risk Officer, working with the Energy & Resources Institute in India to identify areas for improvement, and hiring a Head of Sustainability for their mortgages business. While their responsible lending policy and integration of sustainability remain work in progress, we consider these outcomes as positive progress.

Dialogue continued with HDFC during 2021 and remain part of our engagement.

Next steps
We will continue to engage and encourage the company to provide greater transparency on the environmental factors they consider as part of their credit risk process and also on analysis undertaken on where their loan book is most vulnerable from a climate change and water risk perspective.

Case study
Bank of China – clear sustainability targets

Team
- Fixed Income & Credit team

Issue type
- Sustainability

Background
Bank of China is a Chinese national commercial bank headquartered in Beijing and the fourth largest bank in the world. We were their bond holder and the bank issued its first sustainable re-linked bond in November 2021.

Objectives
This was Bank of China's first issuance of a sustainable re-linked bond. We were keen to fully understand the proposed structure of this bond. The bond features an innovative coupon adjustment with reference to the performance of the relevant sustainability performance targets of the underlying Sustainability Linked Loans.

These sustainability targets are linked to sustainable finance, climate change, resource conservation and efficiency, social benefits, ecology and corporate governance.

Process
In order to understand the structure and performance targets of the bond we participated in an investors call with the Bank's sustainability team.

Outcomes
Bank of China issued US$300m* sustainability re-linked bond offerings. We decided not to participate in the issuance as the bond featured a rare step-down clause if the underlying loan borrowers tied to the debt managed to exceed their sustainability targets.

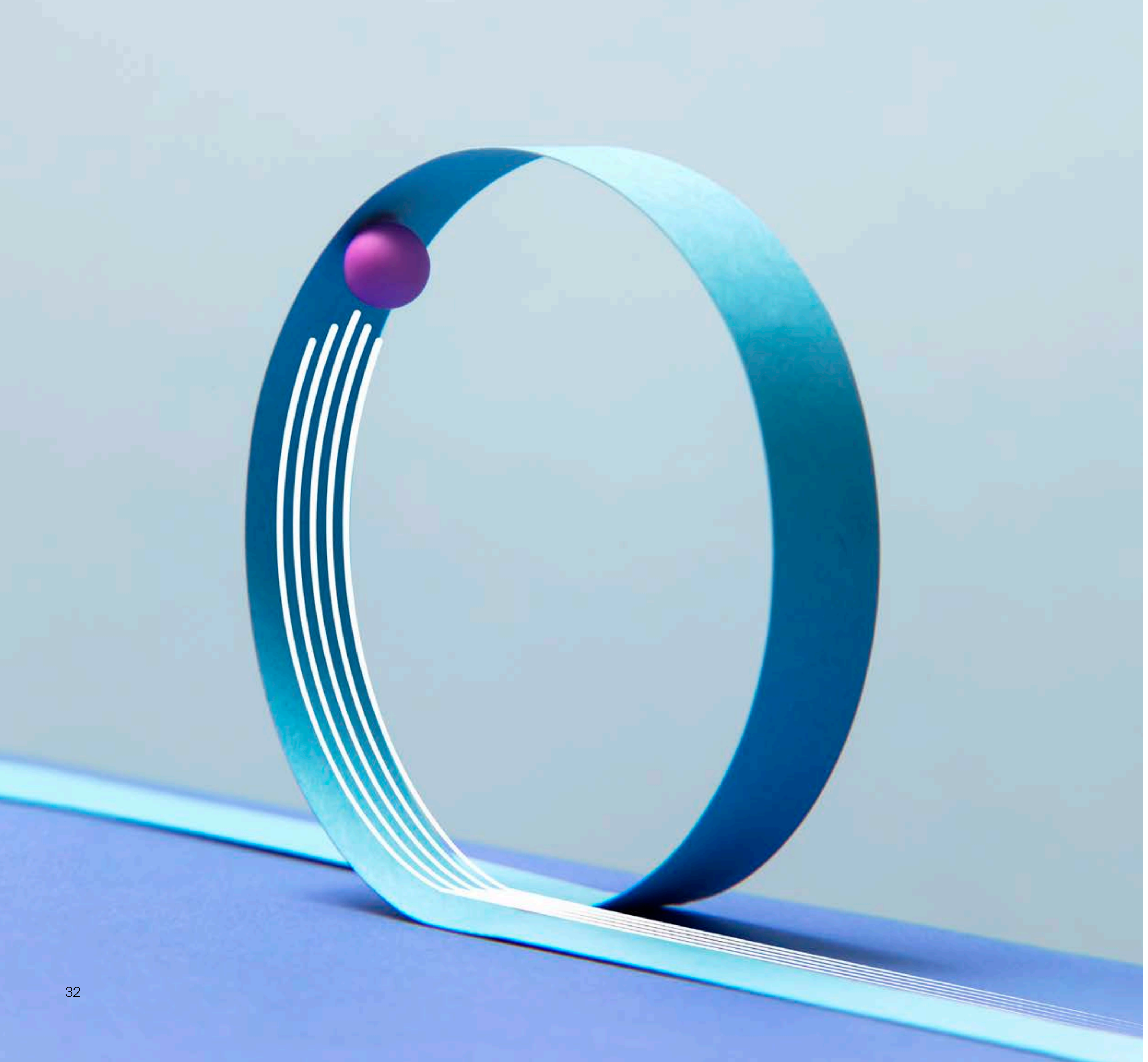
We have shared our feedback that more transparency on the underlying loans were required for us as investors to be comfortable with a potential step-down structure. This was particularly relevant as there was limited transparency on the underlying loans and related sustainability targets and performance.

Next steps
We will continue to track progress in the market development of sustainability-linked bonds within Asia and engage with relevant issuers.

* Bank of China Company Report

Identifying and responding to market-wide and systemic risks

Market-wide systemic risks are clearly important considerations for asset managers, particularly as these risks are diverse and often difficult to mitigate through diversification. These risks are evaluated through our Responsible Investment Steering Group, the membership comprising senior management and investment team heads or their representatives.



Climate change

Why it's important to us

The negative impacts of climate change - warmer temperatures, rising sea levels, extreme weather patterns - pose systemic risks to society and the global economy. It impacts the availability of resources, the price and structure of the energy market, the vulnerability of infrastructures and the valuation of companies.

The urgent need to transition to a low-carbon and more resilient economy require companies to adjust their business models. Those that fail to take action on climate change will face increased transition risk such as regulatory and reputational risk as governments, communities and market players shift towards a low-carbon future.

Climate change impacts the operational and financial performance of investments within our portfolios

What we're doing

During 2021, our investment teams reiterated their commitment to greenhouse gas reductions across portfolios by assessing their current alignment to net zero and mapping out the steps which would need to be taken to make and achieve a commitment to reduce emissions across our portfolios in line with a target of net zero emissions by at least 2050. Based on this work, we were able to make a firm-wide net zero commitment in early 2022.

At the firm level, we have built a framework allowing teams to make their own commitments in line with this transition towards net zero. As an investment management business we believe long-term success is built on providing investment teams with investment autonomy. This approach enables investment teams to maintain their autonomy while ensuring integrity and accountability with a firm-wide net zero commitment. It is based on the guidance provided in the IIGCC (Institutional Investors Group on Climate Change) Net Zero Investment Framework Implementation Guide.

Implementing the net zero commitment sits at the investment team level. Whilst flexibility in approach is allowed within teams, short and medium term targets are set for all investment teams. These targets will be assessed during 2023, 2025 and 2030 and align with our overall target of net zero by 2050. Performance against these targets is monitored by our Global Investment Committee.

Natural capital and biodiversity

Why it's important to us

Nature, biodiversity and climate change are interconnected. The visible impacts of climate change – temperature rises, extreme weather and higher levels of carbon dioxide – are today all too apparent in nature. There has been a significant reduction in global biodiversity, this trend is accelerating and it will compound the negative impact of climate change. In short, addressing biodiversity loss is a critical component in tackling climate change.

The financial and economic consequences in failing to address nature loss cannot be underestimated. Indeed, over half of global economic output – US$44tn of economic value generation – is moderately or highly dependent on nature.

As investors, biodiversity is therefore a legitimate concern particularly with regard to the financial stability of markets and the risk to corporate activity and performance.

What we're doing

In 2021, First Sentier Investors signed the Finance for Biodiversity Pledge, which provides a framework for financial institutions to address nature-related risks, by applying a more systematic assessment of how nature may impact a company's performance, and how a company impacts nature.

Our investment teams had continuing interactions with companies globally and across sectors, engaging with them on biodiversity and other nature-related issues.

FSI continued its collaborative engagement with the laundry industry with respect to marine microplastic pollution, partnering with the Marine Conservation Society in the UK.

The financial and economic consequences in failing to address nature loss cannot be underestimated

Human Rights and modern slavery

Why it's important to us

Modern slavery is, unfortunately, a heightened area of concern to investors. The catalysts for modern slavery are diverse but involve increasingly transient populations, sustained poverty and displacement due to global conflicts. COVID-19 has exacerbated many of these factors, increasing worker vulnerability.

As custodians of our clients' assets, there is an expectation as well as regulatory requirements for us to identify and act to eliminate human rights abuses. This is not only part of a wider societal responsibility, but it impacts the performance of our investments. In a highly connected world, evidence of corporate malpractice, whether the use of child labour, living conditions of migrant workers or human trafficking, is rapidly disseminated. This is not a sustainable business model, and the reputational damage for the companies involved can be substantial and the value of an investment significantly impaired.

What we're doing

We believe that the greatest risks of human rights abuses lie within supply chains. Suppliers may be based in low-cost locations in order to remain price competitive. This presents a clear risk that modern slavery and other human rights abuses take place. Case studies provided in this section highlight how direct engagement with companies can make a genuine difference in eradicating such practices.

We reviewed and updated our Modern Slavery Toolkit, the primary framework used by investment teams to identify and mitigate modern slavery risk within portfolios. Further, we launched Modern Slavery Analytics, a tool extracting data from multiple sources to assist investment teams in the analysis of modern slavery risk.

We increased the number of individual company engagements undertaken in 2021 where our focus was modern slavery risk. Examples of these engagements are included in the case studies provided.

Internally, in 2021 First Sentier Investors set-up its own Global Procurement and Supplier Governance team. This team works with areas of our business who have relationships with external suppliers in order to manage modern slavery risk in their operations.

Direct engagement with companies can make a genuine difference in eradicating such practices

Climate change – Igneo Infrastructure Partners

Igneo Infrastructure Partners takes significant ownership stakes in portfolio companies, with lead or co-lead shareholder roles and in many cases 100% ownership. This ensures board representation and enables Igneo to engage directly with portfolio companies and proactively manage all aspects of the business, including ESG performance.

In 2021 Igneo set a target to achieve net zero portfolio GHG emissions within each of its strategies by 2050 or sooner. To help deliver on this target, the team devised Climate Action, 1, 2, 3!, an action plan they will roll out to all portfolio companies between 2021 and 2023.

Under Climate Action 1, 2, 3! Igneo Infrastructure Partners will directly engage the Boards and senior management teams of all of its portfolio companies to ensure that by 2023 they:

- Devise a road map for achieving alignment with a net zero emissions pathway, including short- and medium-term emissions reduction targets
- Complete a detailed climate change impact assessment and integrate conclusions into business plans
- Put in place key measures to achieve strong governance of climate-related risks and opportunities

More detail on each of the actions and updates on progress can be found in Igneo's own annual ESG report. Several of Igneo's portfolio companies have already completed or taken significant steps towards completing Climate Action 1, 2, 3! To provide some examples:

Igneo set a target to achieve net zero portfolio GHG emissions by 2050 or sooner

Case study
Scandlines – zero-emissions ferries

Team
- Igneo Infrastructure Partners

Issue type
- Decarbonisation

Relevant SDG
- SDG7 – Affordable and clean energy

Background

Headquartered in Denmark, Scandlines is the sole operator of the Rodby-Puttgarden (RoPu) ferry route between Copenhagen and Hamburg. It is also sole operator of the Gedser-Rostock (GeRo) route between Copenhagen/Southern Sweden and Berlin.

For almost 10 years the company has had a vision to become a zero-emissions ferry operator and this is a cornerstone of their overall strategy. Scandlines has invested significantly to make this ambition a reality with over €300m of green investments and technological advances being made to date. It is regarded as a pioneer in green ferry operations. Igneo Infrastructure Partners holds a 50.1% stake in Scandlines and played a vital role to their journey.

Reducing emissions through innovative technology

On its path to zero-emissions, Scandlines introduced in 2013 a ground-breaking hybrid propulsion system on its four ferries serving the RoPu route. This combined both diesel power and electric battery power and reduces the ferries' CO_2 emissions by 15%. Additional hybrid ferries were added to the GeRo route in 2016 which reduces fuel consumption by around 66% per trip, per car.

Scandlines further reduced CO_2 emissions from its fleet, introducing new thrusters on two of its ferries, cutting CO_2 emissions by a further 10–15%. This focus on emissions reduction continues and in 2020 one of its existing hybrid ferries was further upgraded with a Norsepower rotor sail. With favourable wind conditions, this technology harnesses wind power allowing the main engines to be throttled back, saving fuel and reducing emissions.

Recently during a period of very windy weather, this ferry was able to operate using only one of its two on-board diesel motors. The initial results from the rotor sail installation have been so promising, a second Scandlines ferry may be retrofitted with a similar system over the next two years.

Introducing its first zero-emissions ferry

The company has now commissioned its first completely zero-emissions ferry. This vessel will be able to operate purely on battery power and will replace an existing 40-year old vessel. This new ferry will be 7X more energy efficient per freight unit resulting in significant savings in operating expenses, capital expenditure and potential future carbon taxes.

Scheduled for introduction in 2024, this vessel will be able to make the Ro-Pu crossing in three hours emissions-free, or two hours using its hybrid system. The expected CO_2 savings are expected to be almost 15,500 tonnes running with the hybrid system or 21,000 tonnes a year with the emissions-free system.

This ferry has the largest battery of any electric ship today and will utilise a new charging facility Scandlines is developing in Rodby. The power cable from this new facility will be extended directly to the ferry berth. In future, the company is planning to install a further charging capability on the Puttgarden side of this route.

Overall, the introduction of this new ferry not only allows emission-free operation, but has provided a significant increase in capacity for Scandlines. Replacing two older ferries, capacity will rise by 23% helping to meet growing demand for freight transport.

No stock mentioned in this presentation constitutes an offer or inducement to enter into any investment activity

Case study

Utilitas – from low carbon to zero carbon

Team
- Igneo Infrastructure Partners

Issue type
- Decarbonisation

Relevant SDG
- SDG7 – Affordable and clean energy

Background

Utilitas is the largest district heating (DH) operator and renewable energy producer in Estonia. Supplying heat and electricity to eight cities the company operates 547km of DH network, three combined heat and power plants (CHP) and nine solar parks. It provides heat to 174,000 households. Igneo Infrastructures Partners owns an 85% stake in Utilitas.

Targeting net zero emissions by 2030

Utilitas aims to have net zero CO_2 emissions by 2030. Significant progress has already been made with Utilitas already cutting the carbon intensity of its heat production by almost 60% between 2008 and 2021.

During 2021 the Board of Utilitas approved plans for all energy, heat and cooling produced by the company to be carbon neutral by 2030. This target exceeds the national Estonian government's target for carbon neutral energy production by 2035.

A further €550m investment will be required over the next decade to meet the net zero commitment and will focus on four main areas:

1. Investment in greener, more efficient energy production
Utilitas will replace all fossil fuel power generation with renewable energy sources by 2030.

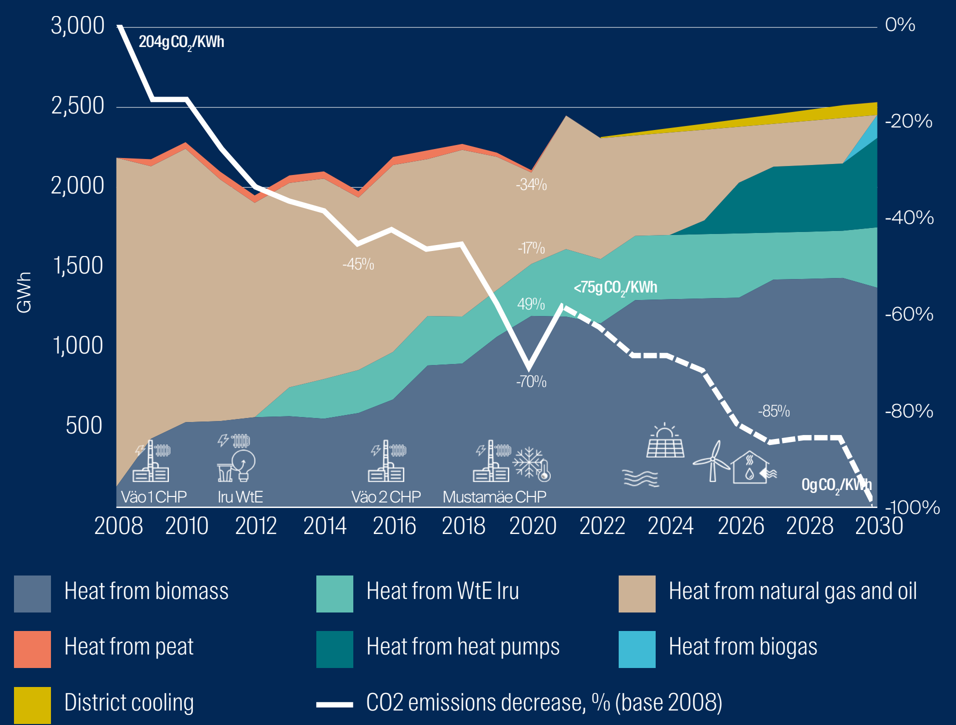
2. Securing green electricity supply
Includes constructing two onshore wind projects (47MW) and one solar project.

3. Extensive renovation to improve network efficiency
Replacing and refurbishing all old non-insulated district heating pipes by 2035

4. Digitalisation solutions to reduce consumption peaks
Investing in smart substations enabling real-time automatic management of the networks helping smooth out demand peaks

The pathway to achieve complete decarbonisation of energy production by 2030:

Utilitas aims to achieve 100% decarbonisation of energy production by 2030



Source: Utilitas

Utilitas has reduced the proportion of fossil fuels in its energy mix from 88% in 2008 to 34% in 2021

Sustainability linked debt financing

Aligned with its decarbonisation targets, in 2021 Utilitas refinanced €320m of its acquisition debt facility with a Sustainability Linked loan. The interest rate is linked to two key sustainability indicators assessed at four time intervals:

Sustainability indicators and targets	2020	2023	2026	2030
Carbon intensity of produced and purchased heat and district cooling in Utilitas networks (gCO_2/kWh)	60	58	32	0
Share of renewable energy in Utilitas' energy production mix (%)	74	73	85	100

Utilitas will report on progress against these metrics and its wider net zero plan on an annual basis. Its net zero target covers all Scope 1 and Scope 2 and a portion of its Scope 3 emissions:

- Over 99% of Scope 1 emissions arise from the combustion of fossil fuels for energy generation. Utilitas has reduced the proportion of fossil fuels in its energy mix from 88% in 2008 to 34% in 2021 and aims for 0% by 2030.
- Scope 2 emissions are minimal and arise from purchased heat for Utilitas' offices (all electricity consumption already comes from green sources).
- Scope 3 emissions included in Utilitas' targets arise from heat the company purchases from third parties for its Tallinn DH network.

In a "business as usual" scenario, i.e. without further investment in decarbonisation, Utilitas' emissions would be around 186,000 tonnes CO_2e in 2030. Instead, Utilitas aims to reduce these to zero.

No stock mentioned in this presentation constitutes an offer or inducement to enter into any investment activity

Case study

Alliant Energy – transitioning towards net zero

Team
- Global Listed Infrastructure

Issue type
- Decarbonisation

Relevant SDG
- SDG7 – Affordable and clean energy

Alliant Energy have plans to eliminate all coal-powered generation by 2040

Background
Alliant Energy is a regulated US utility company. It currently has a relatively large carbon footprint, primarily due to its coal-fired power generation assets. The company is seeking to transition towards renewables, significantly reducing its present CO_2 emissions. Alliant Energy plans to eliminate all coal-powered generation by 2040 and to reach net zero carbon dioxide emissions by 2050. Our approach on this topic is to encourage companies to accelerate their current strategies, given the urgent need to take action in this area.

Objectives
While Alliant Energy's commitment to decarbonisation and net zero is positive, we wanted greater clarity on the underlying assumptions underpinning their net zero strategy. We also wanted to learn what factors, if altered, could lead to an acceleration of this plan.

Process
During 2021 we held a meeting with Alliant Energy's management team. They noted the challenges involved in moving towards renewables, including the weather impacts that can affect wind turbines (cold conditions) and solar panels (snow). Overall however the company remains well positioned to benefit from coal-to-renewables investment opportunities.

We also sought to understand the impact of this transition on the customer bill, owing to our belief that the transition towards net zero should be affordable for the consumer. The company anticipates that investment tax credits will be available as solar panels are paired with battery storage, which will help with the overall affordability of the customer bill. As renewables are the cheapest source of energy, this transition can be affordable for customers when managed over a number of years. Avoiding large increases to the customer bill remains the largest constraint to an acceleration of this process, which is why the process typically takes place over relatively long time frames.

To help us understand the underlying assumptions behind their net zero 2050 target, we also asked the company to request ratification from the Science Based Targets initiative.

Outcomes
Moving away from fossil fuel power generation and migrating towards low-carbon based renewable alternatives is a medium term theme for the company. This transition will occur over several years, not immediately. However, we were reassured the company is taking appropriate measures to progress in this area while ensuring that customer costs are maintained at reasonable levels.

Next steps
We will continue to engage with the company on this topic and encourage further progress on its path to decarbonisation.

We will follow up on our request that the company obtains ratification for their net zero target assumptions from the Science Based Targets initiative.

No stock mentioned in this presentation constitutes an offer or inducement to enter into any investment activity

Case study

President Chain Stores – biodegradable packaging

Team
- FSSA

Issue type
- Plastics

Relevant SDG
- SDG12 – Responsible Consumption & Production

Our intention was to minimise plastic packaging destined for landfill

Background
There are a number of sustainability challenges facing Fast Moving Consumer Goods (FMCG) companies and associated distributors such as modern retailers. Plastic packaging, particularly in emerging markets, is one of those we are most concerned by. President Chain Stores have directly highlighted three key goals to us as shareholders, two of which are positive social impact and environmental sustainability.

With previous success engaging with FMCG companies in India, we introduced the company's 7-ELEVEN convenience store management team to a biodegradable packaging company, Polymateria. This company offers a viable biodegradable solution specifically for fugitive waste (unmanaged waste which evades the circular economy and enters the environment).

Polymateria creates biodegradable packaging without the need for any composting technologies and at only a minimal addition to current packaging costs. Further, no change is needed to existing packaging manufacturing processes allowing introduction at minimal capital outley.

Objectives
Polymateria specifically targets fugitive plastic from snack wrappers, cups and shopping bags which have a natural overlap with 7-ELEVEN's product portfolio. Our intention introducing President Chain Stores to Polymateria was to minimize the amount of plastic packaging destined for landfill or contaminating natural habitats.

Process
We raised an introduction with Polymateria in a meeting with 7-ELEVEN Taiwan in 2020 and followed this up with a formal introduction. We have continued to engage, with regular updates from both the company and Polymateria.

Outcomes
This engagement has been largely successful. Polymateria have now successfully integrated their biodegradable master-batch into 7-ELEVEN plastic prototypes and undertaken testing to show how their consumables would biodegrade. In 2021 on the back of the sucessful trial period, we were pleased to hear that 7-ELEVEN Taiwan had rolled out the packaging solution on 6 SKUs. This included their ever-popular cheese-baked rice meals. The companies are considering expanding the solution to straws and film wraps. Approximately 4% of the plastics used by 7-ELEVEN Taiwan are degradable. Polymateria were confident they could reach 50%.

Trials continue on a number of other product lines in the hope that product coverage can expand in the second half of 2022. Importantly, neither we, nor the company, view Polymateria's solution as a silver-bullet to plastic pollution. Genuine reductions and recycling remain the primary focus but biodegradable solutions are useful in the event that plastic does seep into the environment. 7-ELEVEN is equally aligned on this and their primary target is to reduce disposable plastic usage by 20% by 2023.

Next steps
Continued engagement.

No stock mentioned in this presentation constitutes an offer or inducement to enter into any investment activity

Increasing our influence through collaborative engagement

We're committed to active engagement – much of it with other investor groups – and collaboration is vital to that. We collaborate in particular when we believe we can amplify our message in a larger group of like-minded institutional investors – which sometimes includes our institutional clients.

We influence issues from modern slavery to marine conservation

Our long record of collaborative engagement with other global investors covers a number of important topics, such as:

- Corporate responsibility
- Human trafficking and modern slavery
- Conflict minerals
- Environmental concerns
- Board representation

Case study
Microfibres

The advent of polymer-based synthetic fibres like nylon and polyester transformed fashion and garment production. More than 60% of the clothes we buy today contain these fibres. All textiles shed microfibres, including natural, synthetic and semi-synthetic ones, particularly via the washing process. They have been found in the deep ocean, on beaches, in rivers and in the atmosphere, as well as in animals, plants and human food. The amount of synthetic microfibres accumulated in the environment so far is thought to exceed 5.6 million metric tonnes (MMT). Existing studies have largely focused on microfibre shedding from synthetic textiles during washing.

The full impact of microfibres on the environment and human health is still unknown, but early research has concerning findings of damage to some organisms' development, growth or reproduction and despite such concerns, microfibre release is still largely unregulated. Moreover, the environmental presence of microfibres is expected to increase as global textile consumption increases; annual global fibre production of textiles is estimated to increase by about 33% to 146 MMT by 2030[1].

Although not the source of the problem, during washing tiny fragments break off in the washing machine and are released with the wastewater, into rivers and oceans providing an unseen and accumulating form of environmental pollution.

Globally, there is estimated to be more than 840m domestic washing machines in use and with the advent of technological solutions to fit filters in washing machines, there are now solutions to prevent this serious pollution risk. However, industry adoption is slow.

An arrow worm in the plankton has eaten a plastic microfibre that has blocked the passage of food through its gut

Throughout 2021, we have continued to collaborate with other investors and the Marine Conservation Society (a leading UK-based science-led NGO) to engage with the manufacturers of domestic and commercial washing machines to urge them to fit filters to stop microfibres entering the global marine ecosystem.

We have two clear objectives. The first is to apply group pressure to manufacturers to influence them to fit plastic microfibre filters as standard in all new machines by the end of 2023. The second is to lobby the government to put legislation in place banning the sale of new machines that don't have filter mechanisms built in.

Our Progress

We were delighted to see in late summer 2021, the introduction of the first commercially available washing machine with a microfibre filter fitted as standard feature from one of our target manufacturers. This product, called the "FiberCatcher"[2] was brought to market under the Grundig brand and is available for sale in the UK.

This is a major step forward and it shows that filters can be commercially fitted as a standard feature. We are continuing to collectively engage with other manufacturers to encourage them to follow Grundig's industry lead.

Secondly, following our expression of support to the UK's All Party Parliamentary Group (APPG) on microplastic pollution, we were delighted to see the "Microplastic Filters (Washing Machines) Act 2022" submitted for an initial reading in the UK Parliament by the chair of the APPG.

The Act seeks to introduce legislation to prohibit the sale of machines without a filter in England and Wales from 1st January, 2025. This follows similar legislation coming into force in France at the end of 2024.

We will be tracking the progress of this proposed legislation closely as well as other emerging similar legislation in other parts of the world.

1. https://www.grundig.co.uk/fiber-catcher
2. https://www.grundig.co.uk/laundry-appliances/washing-machines/fiber-catcher

Case study
IAST APAC – collaborative engagement on modern slavery

IAST APAC is focused on industry collaboration – including shared knowledge

IAST – APAC (Investors Against Slavery and Trafficking – Asia Pacific) was launched in 2020 as an investor initiative to promote effective action by companies to find, fix and prevent modern slavery, labour exploitation and human trafficking across the value chain.

The initiative is strictly open to investors only and has a steering committee of First Sentier Investors (chair), AustralianSuper, Aware Super, Fidelity International, Ausbil Investment Management Limited, and the Australian Council of Superannuation Investors (ACSI). The secretariat of the initiative is provided by Walk Free in partnership with the Liechtenstein Initiative for Finance Against Slavery and Trafficking (FAST). IAST APAC currently represents AU$7.7 trillion (US$5.7 trillion)[3] in portfolios under management across 36 members in March 2022.

The initiative is divided into two work streams. The first work stream centres on an investor statement on modern slavery. This statement outlines investors' expectations and encourages companies to go over and beyond the legal requirements of the Australian Modern Slavery Act (2018). It also suggests and encourages companies to take a number of specific actions based on best practice to combat slavery effectively.

The investor statement was initially sent to all the companies listed in the ASX100 in late 2020. Of the responses, 33% acknowledged the investor statement – and, in the majority of those responses, companies welcomed further engagement with the initiative. In 2021, in conjunction with the end of Australian Financial Year deadline for the reporting requirement under the Modern Slavery Act and widespread evidence of increased risk of modern slavery globally in the wake of the Covid pandemic, an updated investor letter was sent to the ASX100 companies that did not reply and to the remaining 100 companies listed in the ASX200.

Many of the specific points raised in the investor statement are linked to the second work stream, which focuses on engagements with specific companies. Twenty-three companies were selected from four sectors – Consumer Discretionary, Consumer Staples, Technology, and Healthcare – as engagement priorities. Work has begun on those engagements, including establishment of engagement plans with specific objectives and milestone targets – and, in some cases, engagement with the companies has started. In addition, a number of workshops were held for members, including sharing best practice on engagement and key priorities for engagement reports.

Looking ahead, investors will be using the engagement plans for multi-year engagements with the selected companies and continue to share knowledge and best practice. It is envisaged that the work under this work stream can also assist members to address the mandatory criteria of measuring the effectiveness of actions taken, under the Modern Slavery Act, by tracking progress against the engagement plan.

IAST-APAC is strongly focused on industry collaboration – in the spirit of the Modern Slavery Act – including shared knowledge and tools to address risk, taking inspiration from the investor initiative 'Find it, Fix it, Prevent it' in the UK. It also engages with civil society, including Walk Free and FAST as well as investor briefings on specific risks by labour rights experts.

3. Source: IAST APAC, as at 31 March 2022

No stock mentioned in this presentation constitutes an offer or inducement to enter into any investment activity

Case study
CEZ – transitioning from coal

Team
- Fixed Income & Credit team

Issue type
- Climate

Relevant SDG
- SDG7 – Affordable & Clean Energy

We are satisfied CEZ are committed to their exiting of coal

Background

CEZ is the largest utility company in the Czech Republic and one of the largest operators of coal power plants in Europe. Along with Realindex, a First Sentier group company, we wished to establish how feasible their plans were to end coal electricity generation.

Objectives

Together with Realindex, we wanted reassurance the aim by CEZ to cease the use of coal was credible. Specifically, we sought details of the specific actions planned and timelines.

Process

Our engagement process involved communicating with the investor relations team at CEZ. We supplied the IR team with a number of questions specifically related to their action plan and timetable for the elimination of coal from their power generation operations.

Outcomes

We initially contacted CEZ detailing our concerns regarding their continued use of coal in their power plants and provided a set of detailed questions to which we asked them to provide responses. The company responded quickly, suggesting a follow-up call with us to provide the level of detail we required.

Post the call, our view was that the company had provided satisfactory responses to our questions, though CEZ stated the date for them to cease their use of coal would be around 2038. As a result, our internal ESG rating on the company remains High Risk, however, the trajectory for exiting coal is improving.

Our confidence in the company's commitment to cease the use of coal was strengthened as a result of our engagement, however we will keep monitoring them very carefully.

Next steps

Following our engagement with the company, we are satisfied CEZ are committed to their exiting of coal. We further believe the exit date will be sooner than the 2038 date currently given. We will continue to monitor to ensure compliance.

No stock mentioned in this presentation constitutes an offer or inducement to enter into any investment activity

Case study

Energy sector – confronting modern slavery

Team
- Fixed Income & Credit team

Issue type
- Modern slavery

Relevant SDG
- SDG8 – Decent Work & Economic Growth

Background

During 2020, First Sentier Investors joined a group of fellow investors, with combined assets under management of US$3 trillion, to address modern slavery issues within the energy sector. The reason for us joining this investor group was our holdings in three major international energy companies, ENI, Royal Dutch Shell and TotalEnergies. Our specific focus was on labour outsourcing agencies and businesses in the United Arab Emirates (UAE).

Objectives

The objective of this engagement was to gain further insight into these company's labour sourcing policies and the standard of working and living conditions offered to their workers within the UAE, after our first round engagement in 2020. There has been extensive public concern about the treatment of migrant workers within the UAE. These concerns include allegations that workers' passports are routinely retained by labour sourcing agencies.

We were keen to establish the facts and be reassured that reports of the worst examples of worker mistreatment were unfounded.

There has been concern about the treatment of migrant workers

Process

For all three companies (ENI, Royal Dutch Shell, TotalEnergies), we wrote to them on this matter in H2 2021 as part of our annual follow-up process. Specifically, we were interested in the companies providing responses to the following:

- Were any Modern Slavery incidents identified in either their operations or within their supply chain? If so, how were any concerns addressed?
- Has any Modern Slavery training been given to employees, contractors or suppliers?

Outcomes

We are still awaiting responses from all three companies.

Next steps

We will continue to engage with these companies on an annual basis in order to remain fully informed of any developments on Modern Slavery issues.

First Sentier Investors | **Stewardship report 2021**

Case study

Tackling conflict mineral content in the semiconductor supply chain

Team
- Stewart Investors Sustainable Funds Group

Issue type
- Human rights

Relevant SDG
- SDG8 – Decent Work & Economic Growth
- SDG16 – Peace, Justice & Strong Institutions

Background

Conflict minerals (tantalum, tin, tungsten, gold, cobalt) are core materials required within the semiconductor industry.

Poor traceability of these minerals, together with complex supply chains, including smelting and refining, can obscure the provenance of these minerals. This can lead to the inadvertent financing of armed conflict and the abuse of human rights.

We launched a collaborative engagement effort supported by 160 investors

Objectives

As long-term investors, we believe that robust labour practices and good environmental management are complementary to delivering attractive shareholder returns. As regulators and consumers are increasingly focused on the challenges of mineral sourcing within the semiconductor supply chain, we believe there is an opportunity for companies to take a lead in the development of conflict mineral-free supply chains.

Process

In December 2021 we launched a collaborative engagement effort, supported by 160 investors representing collective assets under management of US$6.6 trillion. The focus of this engagement was the use of conflict minerals within the semiconductor supply chain.

We wrote to 29 companies involved in the manufacture of semiconductors encouraging them to:

- develop and invest in technological solutions to improve traceability, possibly blockchain,
- increase transparency and reporting on minerals from mine to product,
- encourage and participate in industry collaboration to improve industry practices,
- impose and enforce harsher sanctions on non-compliance,
- reduce demand for new materials by improving recycling initiatives.

Outcomes

We are at the initial stages of this engagement.

Next steps

We are gathering feedback and communicating with the companies we wrote to. We intend to provide further updates on progress and company responses in due course.

Industry collaboration

Each year, we review the various initiatives that we have been involved with. We do this to ensure their purpose aligns with our clients' interests and that we have the capacity to make a meaningful contribution. The initiatives that we actively support and engage with are listed here:

Global

Principles for Responsible Investment (PRI)
- Signatory

Cambridge University's Investment Leaders Group
- Founder Member
- Chair of Working Group

Climate Action 100+
- Supporting Investor for 3 companies

Tobacco Free Portfolios Pledge
- Signatory

Task Force on Climate-Related Financial Disclosures
- Supporter

Finance for Biodiversity pledge
- Signatory

Asia Pacific

Financial Services Council
- Director of the FSC Board
- Member of the Portfolio Management Board Committee
- Member of the Investment Expert Group
- Member of the ESG Working Group

Investor Group on Climate Change
- Member

Responsible Investment Association Australasia
- Member of the Nature Working Group
- Member of the Human Rights Working Group

30% Club Australia
- Investor Working Group Member

40:40 Vision
- Steering Group Member
- Investor Working Group Member

Women in Sustainable Finance
- Committee Member

Investors Against Slavery and Trafficking APAC
- Chair

Japan Sustainable Investment Forum (JSIF)
- Signatory

Japan Stewardship Initiative (JSI)
- Signatory

EMEA

UK Sustainable Investment Forum
- Board Member

EUROSIF
- Chair

Institute of Chartered Accountants in England and Wales (ICAEW)
- Member of the Corporate Governance Committee
- Member of the Sustainability Committee

Prince's Accounting for Sustainability (A4S)
- Expert Panel Member

UK Investment Association
- Member of the Sustainability & Responsible Investment Committee
- Chair of the Standards & Definition Working Group

London Stock Exchange Group
- Member of the Sustainable Investment Committee
- Member of the ESG Advisory Committee

First Sentier Investors | **Stewardship report 2021**

Policy and wider industry engagement

The industry continues to witness a growth in new ESG and Sustainability related regulation and the continued roll out of previously announced initiatives including the EU Sustainable Finance Disclosure Regulation (SFDR) and EU Taxonomy regulations.

We welcome such regulation where the objective is to provide increased confidence to investors in relation to sustainable investment and minimising the risks of "greenwashing", thus allowing them and their advisers to make informed choices in order to meet their investment, social and environmental goals.

With these aims in mind, we take an interest in regulatory developments by actively participating in industry forums, contributing to policy consultations and in meeting regulators directly. Below we detail some of the key activities that we have undertaken during the past year.

EU Sustainable Finance Disclosure Regulation

The EU's Regulation on sustainability related disclosures in the financial services sector (SFDR and Taxonomy) sets out a series of organisational and product level disclosures that asset managers are required to make in order to comply with what is a complex set of regulations. This complexity in implementation and uncertainty relating to the meaning of some aspects of the reporting requirements have resulted in a series of delays to both the SFDR and Taxonomy reporting implementation.

The implementation of the SFDR/Taxonomy requirements is overseen by an ESG Regulation Project Steering Group that guides and informs the business to ensure we meet all the relevant requirements. This Steering Group is headed by our Global Head of RI. Our main input over 2021 has been in the following areas:

EUROSIF

Our Global Head of Responsible Investment is the Chair of the European Sustainable Investment Forum (EUROSIF) and through this role has met with various members of the European Commission responsible for the SFDR and Taxonomy regulations. Discussions have also been held with ESMA who provide the technical reporting standards for the industry and are responsible for the various national supervisory authorities across Europe. These interactions have enabled us to provide constructive feedback and input in relation to some of the practical challenges of implementing what are a complex series of regulations.

Eurosif also convene an SFDR Advisory Group in which FSI participate and whose role is to represent the concerns of practitioners by feeding back issues to the Commission on EU ESG related regulations with the objective of improving the implementation at a pragmatic industry level.

UK Investment Association

FSI are an active member of the UK Investment Association's Sustainability and Responsible Investment Committee and through this group has met on a number of occasions with the FCA in relation to contributing to the discussions concerning the development of the UK's Sustainabilty Disclosure Regulation (SDR) which is the equivalent of the EU's SFDR and environmental Taxonomy regulations.

General

A number of jurisdictions outside of the UK and Europe have been developing various regulatory and reporting standards for their respective national markets. These include Hong Kong, Singapore and Taiwan. Drawing on the experience of working with regulators and industry bodies in the UK and Europe on similar regulations, FSI have been providing input into consultations on new regulatory standards across these markets when required. An example of this is the Hong Kong SFC's "Green Circular" requirements, which are in part similar to and fungible with the EU's SFDR regulations.

Australian Prudential Regulation Authority (APRA)

During 2021, APRA released for consultation draft guidance to banks, insurers and superannuation trustees on managing the financial risks of climate change. We are supportive of the guidance and the clear message it sends to directors of APRA regulated institutions that climate risk should be considered a financial risk and that material climate risks should be disclosed in line with the Task Force on Climate-related Financial Disclosures (TCFD).

We contributed to a submission by the Financial Services Council (FSC) providing feedback on the draft guidance.

Australian Consultation on Proxy Voting

In May 2021, the Australian Treasury released a consultation paper on Greater Transparency of Proxy Advice.

We had a number of concerns with this paper, which we raised by providing input to a submission by the Financial Services Council (FSC).

Australian Modern Slavery Reporting

The FSC requested input to a Guidance Note to support portfolio managers establishing policies and procedures necessary to respond to modern slavery reporting requirements on a voluntary or mandatory basis.

We contributed to the development of this Guidance Note.

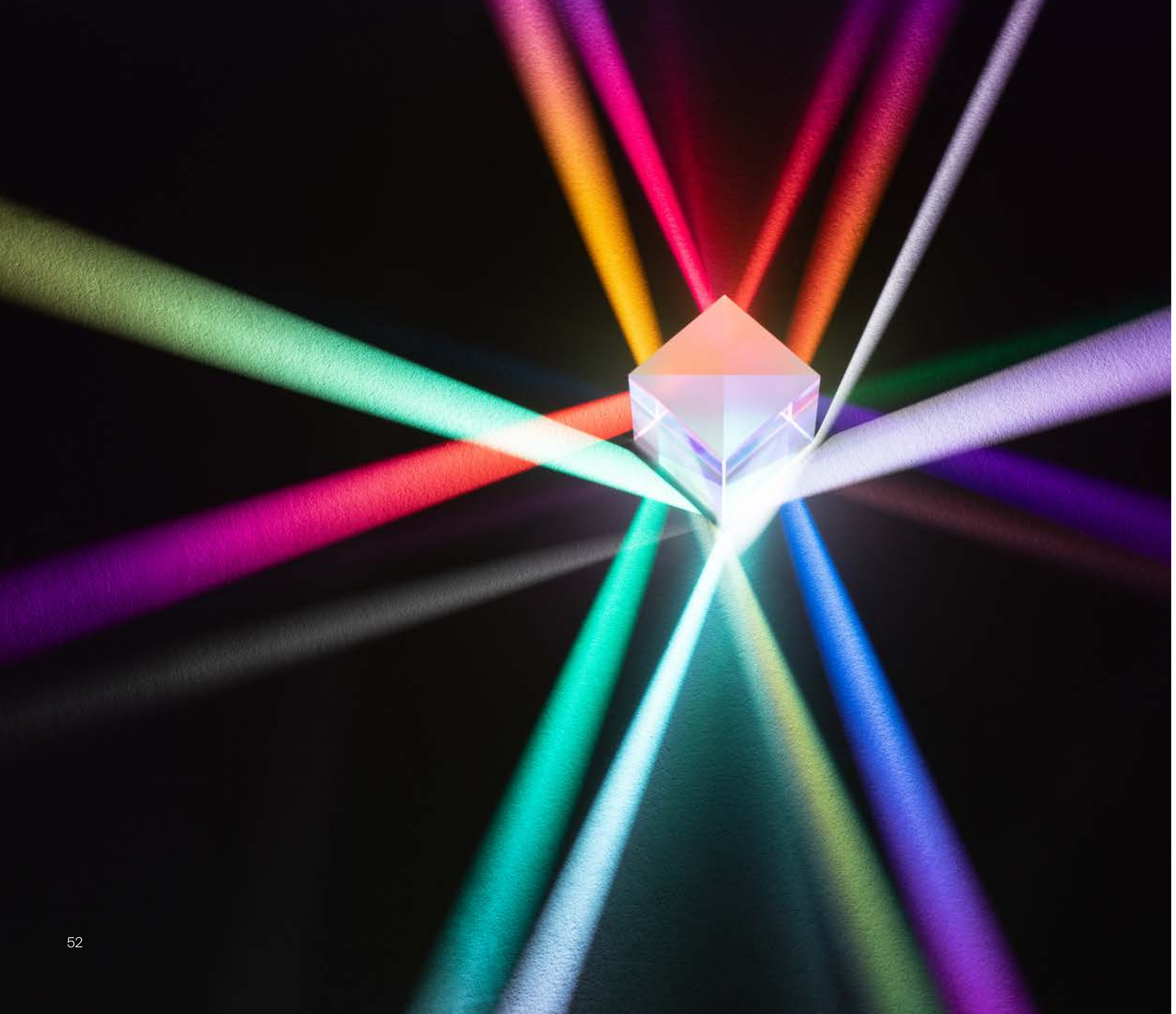
Modern slavery & human trafficking

We participated in a number of events which involved government consultation on modern slavery and human trafficking, including the Bali Process Government and Business Forum's virtual Consultation and Innovation Session for the Financial Sector and the OECD's first International Seminar on the Trafficking of Human Beings.

Open, transparent communication that supports the needs of clients

We aim to be at the forefront of high quality reporting and disclosure for the benefit of our clients and their advisers. Our transparency is a critical part of that and has many benefits.

- It makes it clear to clients and regulators how we execute our responsible investment obligations
- It shows we act as the best possible stewards of their capital
- It means they can hold us accountable for our performance
- It shows we operate with honesty and integrity



Reporting for us is not administrative, rather an opportunity to deepen relationships

A culture built around partnership
The ability to deliver sustainable long-term investment performance relies on understanding the needs and meeting the expectations of clients. Relationships with our clients are not transactional in nature but built on a foundation of genuine partnership. This is a cultural characteristic of our business.

We have various committees which enable us to evaluate and respond to evolving client needs. These forums capture views and insights from all parts of our global business with remits including client experience, governance, product development and investment operations. The work of these bodies is informed through continuous client engagement, particularly by distribution and client relationship teams. This process ensures the investment solutions we offer remain both relevant and effective.

We look to ensure our investment strategies remain competitive and current and we have made alterations to particular products as a result of Assessment of Value analysis. Through our Assessment of Value report (detailed in 'Demonstrating investor value' section), we measure value across our range of portfolios and report actions we have taken. In 2020, as a result of this process we made several changes, including fee decreases for two of our portfolios. In addition, we introduced OCF (ongoing charge figure) caps of 0.25% across all portfolios and share classes relating to third party additional expenses.

Open communication with our clients
As responsible stewards of our clients' capital, we recognise the need to explain the investment decisions we are making, and why. We are long-term investors and seek long-term relationships with our clients. Reporting for us is not an administrative burden, rather an opportunity to deepen these relationships.

This input is supplemented by continual feedback from client-facing colleagues throughout our company on a global basis. As a consequence our client communications are tailored to regional needs with client feedback further allowing us to create bespoke investment solutions.

During the year we commissioned an independent external agency to undertake a client survey to establish our clients' understanding and awareness of our RI and sustainability activities. This client feedback will inform our approach going forward.

A persistent criticism across the asset management industry is that reporting often has a focus on the 'what' rather than the 'why'. Genuine insight appears a rare commodity. Acknowledging this, we favour the use of actual case studies across our reporting and wider client communications. We believe these are often the best vehicles to illustrate how we embed RI principles in practice across our investments, reassuring clients we are acting with honesty and integrity.

Our Responsible Investment report is a clear example of this. Published annually for almost 15 years, this report details how ESG is integrated at a practical level across our investment process. Adding further value to investors, we also provide real-time reporting on different ESG areas, including a carbon reporting dashboard for all our listed equities investment teams as well as live recording of our proxy voting activity. This disclosure is further evidenced by RI reports which are produced by some of our investment teams: Stewart Investors Sustainable Funds Group, Igneo Infrastructure Partners.

Our commitment to open client communication can be evidenced by our direct infrastructure business, Igneo Infrastructure Partners. Direct infrastructure investments are often long duration investments and held for many years. These assets are not publicly listed and clients heavily rely on Igneo, their asset manager, to provide updates and regular reporting.Igneo are recognised as class leading with regards to investor engagement. The breadth of their regular client communications include:

- Quarterly and annual portfolio reports
- Annual Igneo ESG Report
- Igneo ESG Q&A webinars
- ISAE 3402 Risk Report
- Regular investor relations communications
- Stand-alone Igneo website
- Schedule of regular investor insight articles

Oversight of client-related activities is essential to ensure good governance

Ensuring good governance
Oversight of client-related activities is essential to ensure good governance and compliance with key regulatory requirements and best business practices, as these relate to clients. Our Client Experience & Distribution Governance Committee has responsibility for this.

The remit of this committee is to ensure key business activity is viewed from a client's perspective, making sure the treatment of clients is always considered and balanced. Specifically responsibilities of this committee include:

- Handling client complaints
- Product/service performance relative to sales messaging and specifications
- Private placement activities
- Portfolio liquidity in relation to client concentration
- Key value assessment metrics
- Identifying and managing conflicts of interest relevant to marketing of pooled funds

Demonstrating investor value
FSI seeks to deliver long-term investment success for our investors. We provide this through our range of investment offerings, all of which have a commitment to RI and stewardship. Evidencing to investors we are delivering genuine value across the portfolios they invest in, we have a transparent process to assess value within each FSI strategy. We publish an Assessment of Value report annually detailing these results.

Several metrics are used, based on the FCA seven pillars of assessment:

- Quality of service
- Performance
- AFM costs
- Classes of units
- Economies of scale
- Comparable market rates
- Comparable services

There is a further qualitative overlay overseen by board members from First Sentier Investors (UK) Funds Limited ensuring, for each share class, fees and profitability can be justified relative to the overall value delivered.

Each FSI strategy is reviewed and analysed across all share classes. In 2021 (12 months to 31 July 2021), 93 share classes across the 21 FSI portfolios we manage were assessed. The results were as follows:

- 82 rated 'green', confirming they offer value
- 11 rated 'amber', highlighting room for improvement
- 0 rated 'red', denoting no areas of concern

Full details of results for each strategy are communicated through our annual Assessment of Value report.

Sharing our insights and knowledge
Strengthening our partnership with clients involves sharing with them our thoughts and perspectives across a breadth of investment topics and themes. We do this with a regular schedule of thought leadership and insight articles, podcasts and webinars. This is supplemented by face-to-face interactions including organised conferences and one-to-one client meetings.

Social media continues to grow as a preferred medium through which to communicate with investors. We continuously post on LinkedIn and other social media platforms. Our clients benefit with a constant flow of highly topical content providing them with timely access to the views of senior investment professionals across the firm.

During 2021 we launched the First Sentier MUFG Sustainable Investment Institute. This initiative is a collaboration with our parent company, MUFG, and aims to progress industry debate on sustainability and sustainable investing. The Institute has already published two major research papers covering the issues of microfibres and microplastic pollution.

More widely, we are active participants in a variety of industry bodies exchanging views with other asset managers and other relevant parties. This can provide different perspectives and sometimes challenge to our thinking. In turn, this is beneficial for clients allowing us to adapt and evolve our products and client service.

We respond to the demands of investors
To meet investor demand, we successfully launched a high quality ESG loan portfolio in Australia for a mandate client. The launch of this initiative was driven by the team's desire to build ESG-related portfolios, utilising the team's long history of ESG investing. Following the success of this portfolio, we will be launching a Sustainable Debt Portfolio in Australia that will invest in high quality loans that meet strict ESG criteria and will be available to institutional investors.

Stewart Investors
Here is an example of how one of our teams, Stewart Investors, have enhanced their commitment to transparency:

Combatting 'greenwashing'
Stewart Investors believe the best way to combat 'greenwashing' is transparency and openness. The first step in transparency is full portfolio disclosure. This is not simply production of a list of company names – the team provide a clear and balanced articulation of why they believe a business is well placed to contribute to and benefit from sustainable development, together with the risks involved.

Stewart Investors Portfolio Explorer
The team's portfolio explorer tool, accessible to clients and prospective investors, provides four separate Stewart Investors views of investee companies and their sustainability positioning:

- The Map, which provides detailed company information including investment rationales, risks and engagement priorities;
- The Sustainable Development Goals, where Stewart Investors provide a description of the company's contribution towards relevant goals;
- Climate Solutions, where the team uses Project Drawdown's 80 climate change solutions to identify which climate change solutions companies are contributing towards.
- Human Development Pillars; the team have developed their own 10 human development pillars inspired by the UN Human Development Index that they believe are essential for lifting people out of poverty and empowering them to achieve their potential, and identify which pillars companies are contributing towards.

Company engagement
As part of their investment approach, the team regularly meet with companies and produce a series of interviews showcasing how investee companies are contributing to society. Examples of these interviews include:

- Dr. Reddy's commitment to providing affordable and innovative medicines;
- Jack Henry and the importance the company place on culture
- HDFC evolving to increasingly consider the growing risks of climate change.

Policy statements
The team have produced a number of position statements and policies on a wide range of topics on which they hold strong views. One example is the team's position statement on harmful and controversial products and services and within that, the disclosure of any investments above the materiality thresholds set in their statement.

We launched the First Sentier MUFG Sustainable Investment Institute

Commitment to sustainability-led research
Launch of the First Sentier MUFG Sustainable Investment Institute

In 2021, First Sentier Investors and MUFG launched the First Sentier MUFG Sustainable Investment Institute (the 'Institute'). The Institute commissions research on sustainability-related topics seeking to enhance investors' knowledge and contribute to industry debate.
The aim is to help investors, individuals, companies, policy makers and regulators better understand how their decisions can contribute to more positive outcomes for the environment and society. We believe this is important as many investors are trying to understand the plethora of sustainability-linked topics including market-wide and systemic risks, and how they impact not only the performance of their investments, but also society and the environment at large.

Independent research
The Institute is supported by FSI and Mitsubishi UFJ Trust and Banking Corporation, a consolidated subsidiary of MUFG. However, the Institute is independent from FSI and MUTB's investment teams allowing it to consider topics independently and from a wider investor perspective. Enhancing its independence and quality of research, it has an external Academic Advisory Board providing guidance on the Institute's research agenda and adds academic rigour to its research output.

An ambitious agenda
We aim to identify and explore thematic gaps in sustainability topics, which we believe can broaden and enhance investors' knowledge, including FSI and MUTB's investment teams and clients.

Going forward, we hope our research will engage larger audiences in the topics we cover encouraging further debate and a greater focus on improving stakeholder outcomes, including for the environment and society at large.

Recent research areas
Our inaugural reports focused on environmental and health concerns arising from micro pollution, including microplastics and microfibres. Unlike other pollutants, e.g. plastic waste, this type of pollution, and the damage caused, remains poorly studied and understood, not least within the investment community.

Subsequently we shall be looking at themes spanning the full spectrum of ESG issues where the Institute believes it can add value. Institute reports are available online.

Understanding microfibre and micro plastic pollution
The causes, impacts and roles for industry, regulators and investors

1. Potentially large environmental and health impact

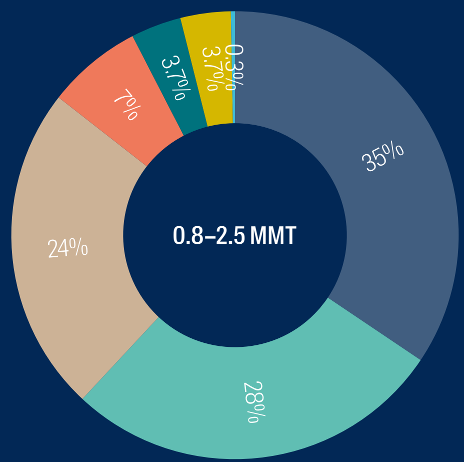
We are at the beginning of understanding the impact of microplastics and microfibres on the environment and human health. However, current research already indicates this pollution is wide-spread and could have serious impacts.

- In the marine environment, where most of the pollution ultimately ends up, microplastics and microfibres have been found to cause death and reproduction dysfunction in organisms at the bottom of the food chain, which could in turn impact all marine populations over a long period of time.
- Human food is also already contaminated with microplastics and microfibres which are now commonly found in tap water, plants, fish and animals. Human health impacts are less well understood, but research suggests that this could lead to respiratory complications, endocrine disruptions and cancer.

2. Small size, accumulation and growth of pollution

- Due to their small size, microplastics and microfibres have little to no barriers to distribution and disperse easily in the environment – they have even been found in the remotest of areas, such as Mount Everest.
- Due to their synthetic nature or the chemical treatment of natural materials, microplastics and microfibres do not biodegrade once in the environment with pollution accumulating and intensifying over time.
- It is estimated around 0.5–4.3 million metric tonnes (mt) of microfibres and 0.5–2.6 mt of other microplastics could be entering the environment every year. For context, annual microplastics and microfibres pollution could be around 10–15% the size of global plastic waste entering the environment (around 30-35mt).

Estimated annual synthetic microfibre release to the enviornment in the context of global releases of microplastics

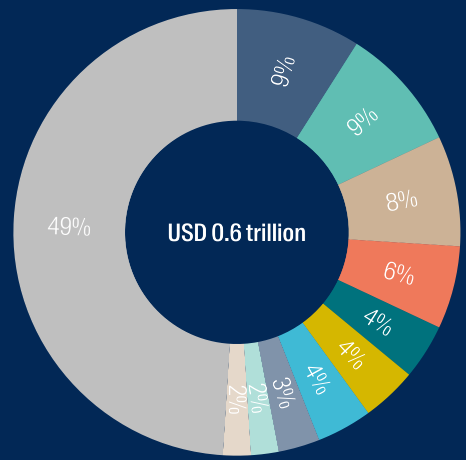


Source: Boucher & Prict (2017)

3. Despite the above, microplastics and microfibre release are still largely unregulated

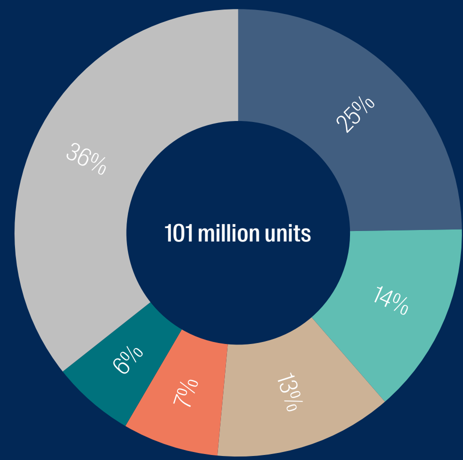
Only microplastics used in personal care products, accounting for <5% of all microplastics, are currently widely regulated, although not globally. The Institute's reports offer additional regulatory and voluntary industry measures that could be taken to prevent and reduce annual microplastic and microfibre pollution. Some of the industries along the relevant value chains are also highly concentrated, such as textile retail and washing machine manufacturing, and investor engagement could be highly effective if it stimulates higher corporate responsibility.

Top 10 apparel retailers based on revenue



Source: Factset, as at November 2021
Companies in the Apparel/Footwear and Apparel/-Footwear Retail Industries based on Factset Industry classification; companies with market capitalisation of over USD 1 billion only

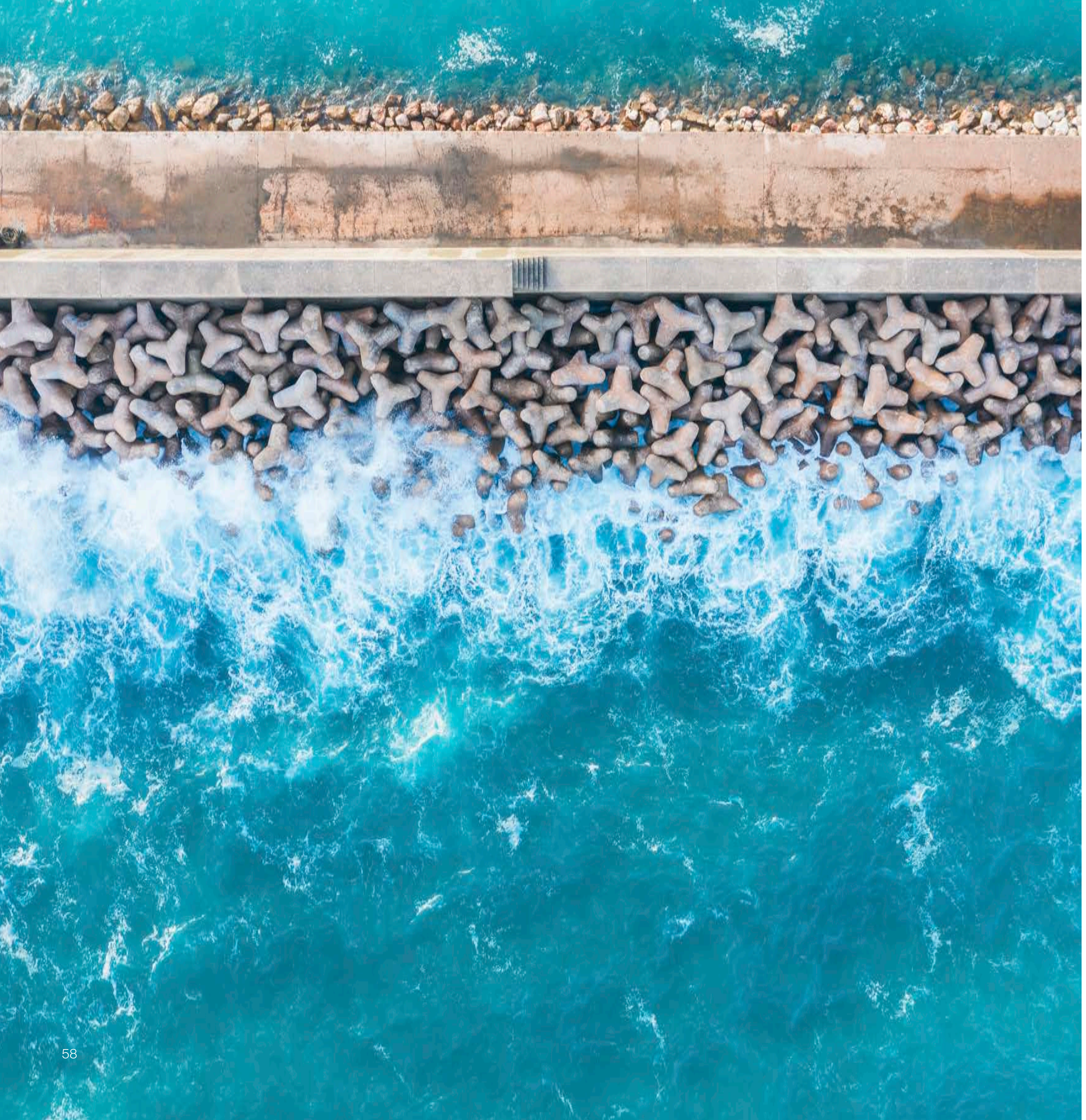
Market share of washing machine manufacturers



Source: Tadviser (2021). Washing machines (global market)

Protecting our clients by exercising their rights and responsibilities

We exercise our right to vote wherever possible. Not only is proxy voting our responsibility as custodians of our clients assets, it enhances our ability to effectively engage with investee companies.



Our belief is that voting rights are a valuable asset. Indeed, these rights (together with other share-related rights such as pre-emption rights) should be afforded the same attention and diligence as any other assets we manage for our clients.

Making well informed decisions regarding proxy voting is crucial. To assist with this, we consult respected external proxy voting advisers (currently, Glass Lewis and Ownership Matters). It should be noted however that we do not automatically accept such recommendations – our investment teams retain full control over voting decisions. On occasions, some of our segregated mandate clients may give us a direct instruction on how to direct their vote on a particular issue.

Performance evaluation of FSI's proxy voting advisors is undertaken on a quarterly basis. Such reviews cover compliance and risk, governance, service delivery and business ethics, disaster recovery, security and cyber security, training and competency and organisation.

We seek to ensure company resolutions are properly considered and appropriate and consistent voting decisions made in alignment with the corporate governance guidelines and principles detailed in this document. The responsibility for this rests with the asset class head (or delegate).

Details of all votes we have cast can be found on our website www.firstsentierinvestors.com in the Responsible Investment section.

In 2021, we voted on 97% of resolutions. And our equities teams voted on 68,980 resolutions. We aim to vote on all resolutions where possible. We don't vote in certain share blocking markets or where there's a conflict of interest.

How we monitor our share holdings and voting rights

All securities held across our portfolios are monitored and maintained by our master custodian. The custodian informs our portfolio managers of all corporate actions requiring a response via an online portal. This process ensures managers receive immediate notification of all corporate actions. Subsequently, and in almost all cases, our clients then delegate proxy voting to us, their asset manager.

With proxy voting responsibility for the majority of our portfolios, we on-board every portfolio to our Proxy Voting system, Glass Lewis. Portfolio managers have access to this system in order to monitor our voting and ensure it remains in line with FSI policy. Whilst Glass Lewis make recommendations, our policy is to allow individual portfolio managers to override a recommendation where appropriate. It is rare for us to abstain/not vote, but where there is a conflict of interest e.g. regarding an affiliate holding, we will do so.

We exercise robust oversight over our proxy service provider

As previously noted, we evaluate the performance of our proxy service provider on a quarterly basis. A particular focus is confirmation that stewardship best practice is being reflected in our voting record, particularly with regard to ESG issues. This oversight is strengthened by asset class heads who additionally review our voting activity to verify this alignment is in place.

Quality of service is measured referencing a set of key performance indicators (KPIs). The proxy service provider is assessed on a variety of metrics including:

- Timely notification of meetings requiring manager review
- Ensuring all ballots are voted on (excluding specifc client instruction)
- Report any votes against policy to the client
- New account setup within 10 days of receipt of instruction
- Timely production of client reports
- 24h response timeframe for all client inquiries

These quarterly KPI-based meetings are in addition to regular Supplier Due Diligence assessments we conduct.

Our commitment to putting clients' interests first

We make the following commitments:

- our investment teams will always exercise their right to vote on all company resolutions where they have the authority to do so.
- we will seek to engage with company management prior to an intention to vote against a company's recommendation on a substantial or contentious issue. Our rationale will be communicated in an effort to secure a satisfactory outcome.
- voting decisions will be made with the best long-term interests of unit holders and clients being paramount.
- we will document the reasons for any vote against a company proposal in the voting system
- an objective assessment of the merits of all resolutions will be made by the investment teams, irrespective of whom is proposing the resolution.
- on occasions where there are multiple parts to a resolution, due consideration will be given by the investments teams to the merits of each part in addition to the impact of the resolution as a whole.

Securities Lending Policy

We don't initiate or actively take part in securities lending as, among other things, it doesn't allow us to fulfil our voting rights and responsibilities.

Voting on environmental and social issues

The most effective approach to secure positive outcomes on ESG issues is to engage directly with company management. Where this engagement fails to deliver a satisfactory outcome, the investment teams will consider supporting shareholder resolutions related to the specific issue and/or voting against company management. In addition, investment teams may decide to directly file or co-file an appropriate shareholder resolution themselves.

Protecting the interests of clients often involves engaging directly with individual companies where we may have specific concerns or simply require fuller information. We do this through face-to-face meetings with senior management or engagement with other relevant management teams.

To illustrate the breadth and depth of our engagement with companies, we provide examples of where this engagement has taken place and the results.

How Fixed Income weighs up rights exercises on bond transactions

Credit analysts and portfolio managers review the bond transaction documents – which include the prospectus, information memorandum, term sheet and security trust deeds – for all bonds bought for our active portfolios and for most of our bonds in passive strategies.

We review key terms which include:

- The events of default, its priority in the event of a default (and, for bonds issued by banks, 'bail-in' provisions)
- The presence or absence of change of control clauses
- Coupon step-ups or step-downs if external credit ratings change
- Cross default provisions
- Limitation to asset sales
- Financial covenants
- Early rights to redemption (by issuer or the bondholder)
- The structure of parent company or group guarantees

For green and other sustainability linked bonds, we review the terms and conditions around the ring-fenced assets, conditions for the application of proceeds and the frequency and standard of reporting required for these bonds. We prefer green and sustainability linked bond documents to be certified or prepared by a reputable third party.

If we're not satisfied with the documentation, we'll give this feedback, along with our recommended changes, to the banks co-ordinating the bond transaction. We often look to add further conditions/protections for bondholders. These might include reporting frequency and specific data for green bonds and those issued by private institutions. For weaker quality companies, we might recommend cross default, change of control clauses and coupon step-ups on external ratings downgrades. If the changes we ask for don't happen, or we're still not satisfied with the supporting documentation even after amendments, we won't invest in the bond.

Case study
Rio Tinto – excessive remuneration

Team
- AEQ Growth

Issue type
- Executive compensation

We made clear we expected to see management change

Background

Rio Tinto is a global mining company with its largest and most lucrative business its iron ore operations in Western Australia. In 2020, Rio Tinto blasted an area of the Brockman 4 mine, which destroyed the nearby Juukan Gorge caves. These caves had evidence of occupation dating back 46,000 years and anthropological reports stated that the sites offered "amazing potential to radically change our understanding of the earliest human behaviour in Australia". The destruction of the caves caused significant distress to the Puutu Kunti Kurrama and Punikura people (PKKP).

At each meeting with Rio, we shared our strong disappointment of the decision made to blast the caves and also ultimately made the point that we expected to see management change.

Following the destruction of the caves, the CEO and other executives' contracts were terminated. Despite the damage caused to the area, the Remuneration Report at the following AGM detailed an increase in total remuneration to be paid to the outgoing CEO which was 25% higher than the previous year.

Objectives

We engaged with the company in order to:

- understand the rationale for remuneration increase paid to the outgoing CEO
- review the structure of the Remuneration Report, comparing it against the industry standard

Process

We met with the Chairman of the Rio Tinto Board to discuss the structure and quantum of the Remuneration Report. During the meeting we expressed our displeasure at the quantum of pay that was awarded to the CEO post his departure in light of the serious nature of the Juukan Gorge destruction.

Outcomes

Based on our discussion with the board and senior management, we believed the outgoing CEO's remuneration was excessive.

We voted against approving the Remuneration Report at the 2021 AGM. The remuneration report was rejected with a 61.6% vote against.

Next steps

We have reviewed the current CEO's remuneration package which appear in line with industry norms and will continue to monitor Rio Tinto's remuneration reports and hold discussions if required.

Case study
Myer – board representation

Team
- Realindex

Issue type
- Company leadership

We asked what strategy was proposed to improve financial performance

Background
Myer has been a substantial holding for Realindex for a period of time. There has been considerable media attention regarding the financial performance of the company and the desire of its largest shareholder (Premier Investments) to have a greater representation on the Board.

Objectives
The purpose of the engagement process was to listen to both Myer and Premier Investments in terms of Myers' desire for greater Board representation. This would impact our decision on how to vote for the election and re-election of company directors.

Process
We spoke to Premier Investments regarding their issue with the current board composition asking what their alternative option was. Subsequently we spoke to the management of Myer in order to understand how they felt the current Board was working. In addition, we asked Myer what strategy they were proposing to shareholders to improve the financial performance of the business.

Outcomes
As a result of our consultations, we decided to vote in favour of re-electing the existing directors. The reason was we felt Premier Investments were not proposing a viable alternative and seeking Board representation disproportionate to their shareholding in the company.

We believe that Myer management presented a reasonable strategy going forward and we were prepared to allow them more time to execute on this plan.

Next steps
We have continued to engage with both Myer and Premier Investments throughout 2021 in relation to the director elections, new chair appointment and the threat of a Board split. We will review what the Board and management have achieved over the year and assess whether it is in line with the strategy outlined.

No stock mentioned in this presentation constitutes an offer or inducement to enter into any investment activity

Case study
AENA – climate change best practice

Team
- Global Listed Infrastructure

Issue type
- Climate change

Relevant SDG
- SDG13 – Climate Action

Background
AENA owns and operates Spain's 46 airports. At its 2021 AGM, the company sought shareholder approval for its proposal, 'Advisory Vote on Climate Action Plan (2021–2030)'.

This proposed plan would enable AENA to reach carbon neutrality by 2026. In addition the plan would allow AENA to achieve a 94% reduction in the emissions per passenger associated with AENA's own operations by 2030.

The plan, if successfully implemented, would allow the company to achieve net zero carbon emissions by 2040.

Objectives
Our primary objective was to engage with the company in order to encourage best practice with regards to carbon reduction. We were also seeking to persuade company management to make greater efforts in addressing climate change-related risks overall.

Process
We previously supported a shareholder resolution in 2020 which encouraged company commitments and increased disclosures related to climate change risk. However, in this instance, we decided to vote against the proposed Climate Action Plan.

Our reason was that whilst the proposed climate related targets and disclosures are much improved, we don't believe they meet best practice.

Outcomes
Despite our vote against the proposal, the proposal passed.

Next steps
We will continue to lobby and actively engage with AENA and other listed infrastructure companies. We believe this is important to encourage greater efforts in addressing climate change-related risks.

No stock mentioned in this presentation constitutes an offer or inducement to enter into any investment activity

Case study
ESR Cayman – conflict of interests

We subsequently sold our position in the company

Team
- Global Property Securities

Issue type
- Shareholder rights

Background
ESR Cayman is one of the largest logistic developers and real estate landlords within Asia Pacific. It is the third largest listed real estate investment manager globally.

During August 2021, the company announced its plan to acquire a private portfolio management company for over US$5bn. We viewed the proposal as disappointing from several aspects:

- expensive acquisition price for a portfolio management business
- large equity issuance/major shareholder stock-overhang
- related party conflict of interest with ESR Cayman Chairman a related party of the largest shareholder in the target company.

Objectives
Within our ESG assessment process, corporate governance is of high importance. Our mission is to uphold the highest ESG values and to encourage the same high standards within the wider industry. We believe it is important companies within the sector align their interests with those of shareholders. Transparency, discussion and engagement between management and shareholders is clearly important.

In this instance, we sought to communicate our views to management and persuade them to amend their proposed plans. This engagement occurred prior to a shareholder vote in order to approve the proposed acquisition.

Process
We communicated our views to the CEO and while management did share with us their rationale and reasons for the proposed strategy and transaction, we remained dissatisfied with their reasoning.

In particular, we felt the conflict of interest with the company Chairman being a related party of the main shareholder of the target company was incompatible with best ESG practice.

Outcomes
Glass Lewis, our proxy voting advisers, recommended we vote in favour of the proposed acquisition. However, in this instance we decided to act in-line with our independent view and we voted against the motion seeking shareholder approval.

As a result of our concerns we downgraded our ESG score for the company from 3.5 to 2.0 and subsequently sold our position in the company completely. Despite our vote against the resolution, the transaction was approved at the EGM.

Next steps
As we are no longer a shareholder, no further steps were required.

No stock mentioned in this presentation constitutes an offer or inducement to enter into any investment activity

Case study
China Mengniu Dairy Company – governance

Team:
- FSSA

Issue type
- Governance

Relevant SDG
- SDG5 – Gender Equality

Background
China Mengniu Dairy is a Chinese manufacturing and distribution company for dairy products including ice cream, liquid milk, milk formula and cheese.

As a longstanding shareholder of the company we have regular engagements with management across a range of ESG issues. Most recently we have raised concerns regarding several corporate governance related issues. These included:

- the poor attendance of one director (the company founder)
- committee independence of a further director
- the company's authority to issue shares without pre-emptive rights

Further, we expressed concern about lack of gender diversity on the Board. Since 2019 there have been no female directors which we believe to be anomalous given the majority of Mengniu's customers are women.

Objectives
With instances where we disagree with a company's proposals we seek to engage with management prior to a vote, primarily through letters and meetings. In this instance we sought to understand the basis for the stance regarding board composition, connected party transactions and the issuance of shares.

Process
We hoped constructive dialogue with management would alleviate our concerns in addition to learning of plans the company had to address the lack of female representation on their board.

Specifically on the issue of female board representation, we wrote to the company in June 2021 explaining our belief that workplace diversity would be beneficial to the company's long-term strategy.

Outcomes
Following our further research and discussions with company management we decided to:

- vote against the election of a director due to his connection with a Danish dairy company
- vote against the election of the company founder as a director due to his lack of active participation in the affairs of the business
- vote against the authority of the company to issue shares without pre-emptive rights as the issue discount would not be disclosed to us

Although we voted against the election of two directors, votes in their favour were passed. Subsequently it was announced in December 2021 that the company founder would be retiring from the board. With regard to female board representation, a female director has now been appointed to the board.

Next steps
We will continue to maintain our engagement with the company, particularly on matters related to board representation.

No stock mentioned in this presentation constitutes an offer or inducement to enter into any investment activity

First Sentier Investors | **Stewardship report 2021**

Our voting practices and voting record

We use Glass Lewis, the provider of global governance services, to advise on and deliver our proxy votes to the companies we invest in.

Our active listed equity teams voted on 68,980 resolutions at company meetings between 1 January 2021 and 31 December 2021.

We have a 'live' voting tool on our website. This gives us information on our voting decisions immediately after each company meeting. We also give each investment team relevant statistics online for inclusion in their respective team profiles.

A comprehensive guide detailing our voting approach regarding major issues can be found in Appendix 1, 'Policy voting guidelines'.

Our proxy voting record by category

	Abstain	Against	For	Grand total
Audit/financials	49	752	3621	4,422
Capital management	60	325	5109	5,494
Director election	309	3,330	29,961	33,600
Director remuneration	17	88	1,778	1,883
Executive remuneration	0	646	3,460	4,106
General business	55	245	3,691	3,991
Governance related	144	769	7,382	8,295
M&A	5	19	548	572
Remuneration related	1	529	2,710	3,240
Shareholder proposal	69	369	659	1,097
Shareholder rights	11	315	1,948	2,274
Others	0	0	6	6
Grand total	**720**	**7,387**	**60,873**	**68,980**

Proxy voting information as of 31/12/2021.
Source: First Sentier Investors/CGI Glass Lewis
Shareblocking markets and other operational constraints prevented us from voting on 2,311 (3%) of resolutions.

Voting independence

The figures below show the number of times our active listed equity teams voted against management recommendations, our proxy advisor recommendations, or against both during 2021. These illustrate the independent judgement which is applied by the teams when making voting decisions:

Against proxy adviser	4,555 (7%)
Against management	7,977 (12%)
Against both	3,469 (5%)

What we voted against and why

Topic: Audit/financials

Our primary reasons: Length of the auditors' tenure

Votes against management: 801

18%

Topic: Capital management

Our primary reasons: Not enough disclosure, the level of dilution and the company's anti-takeover measures

Votes against management: 385

7%

Topic: Director elections and re-elections

Our primary reasons: Not enough female representation, director interdependence

Votes against management: 3,512

10%

Topic: Executive or Director remuneration, compensation, bonuses and share plans or other remuneration-related issues

Our primary reasons: Pay and performance disconnect and excessive compensation

Votes against management: 1,273

14%

Topic: Governance related

Our primary reasons: Auditors' tenure, and supervisors' and statutory auditors' independence

Votes against management: 731

9%

Topic: Shareholders' proposals

Our primary reasons: Management not making enough progress on the issues raised (mainly proposals for additional reporting and disclosure on an issue, need for independent chairs, and reviews and limits on political spending)

Votes against management: 641

58%

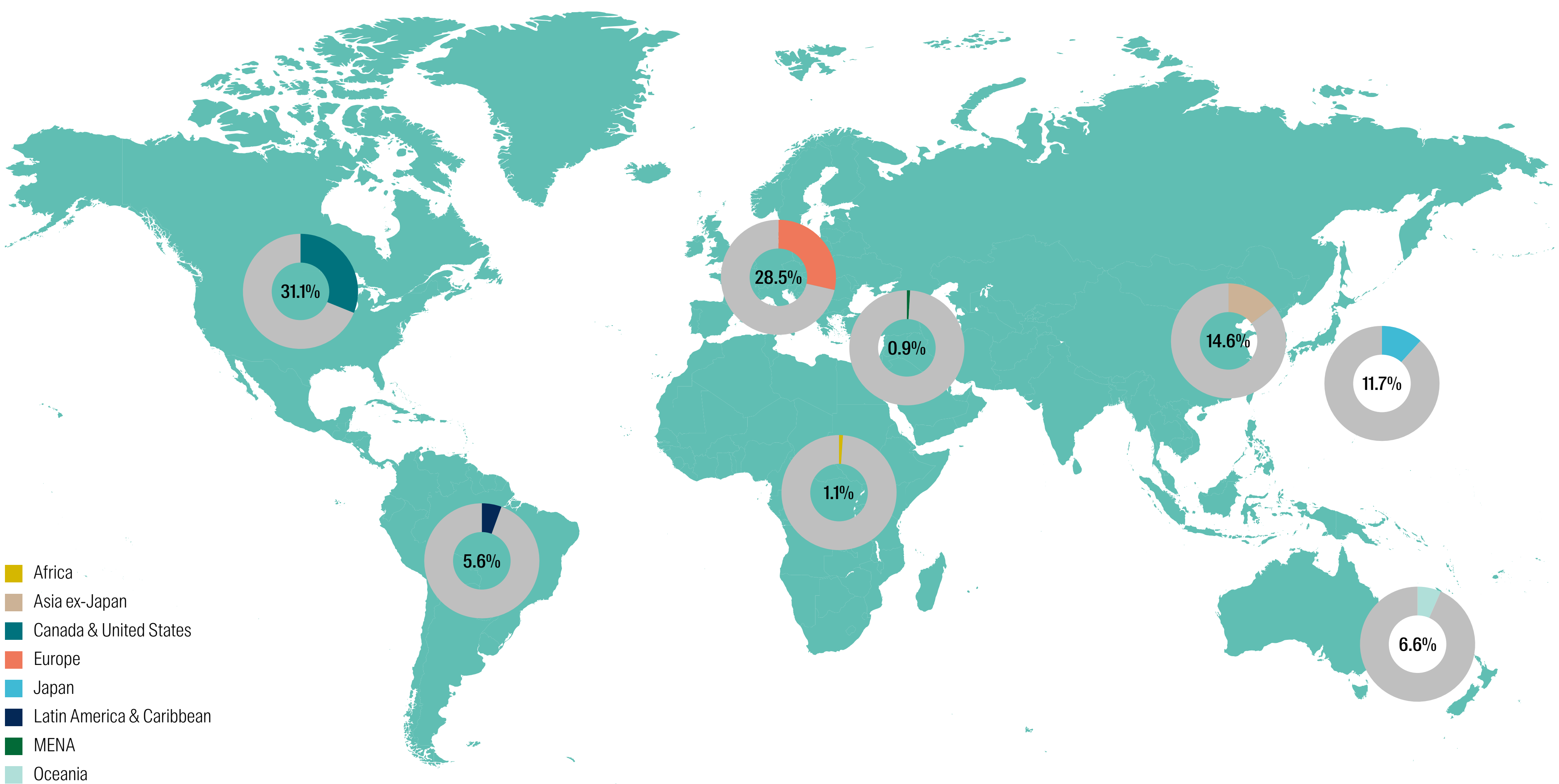
Topic: Shareholder rights around authority to issue shares without pre-emptive rights

Our primary reasons: Excessive issuance and poor disclosure

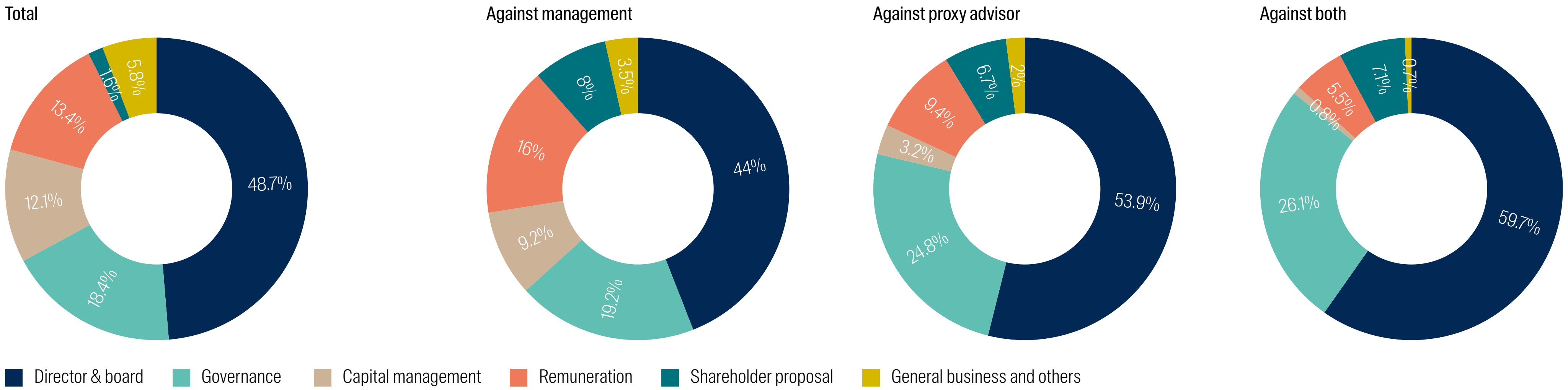
Votes against management: 327

14%

Geographical breakdown of proxy votes

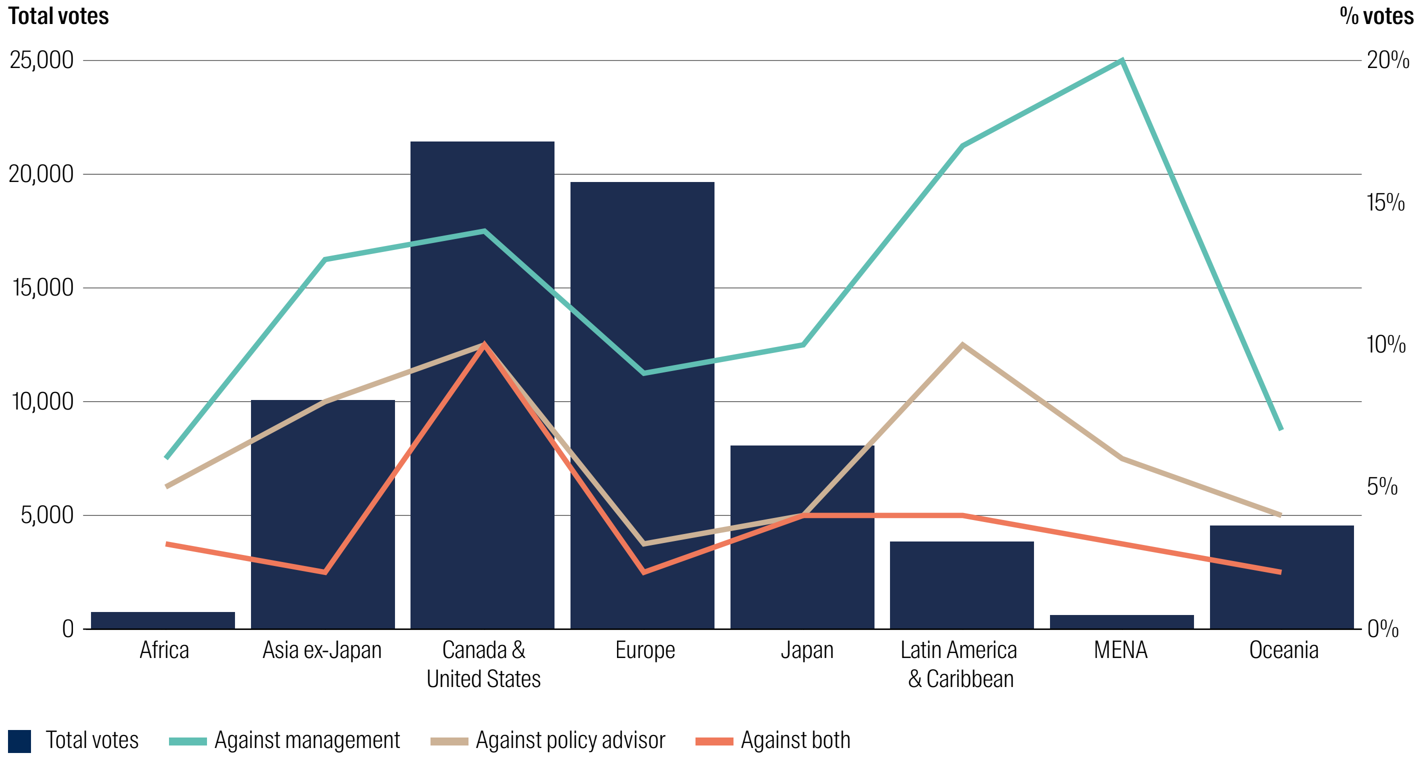


Where we used our voice most



Proxy voting information as at 31/12/2021. Source: First Sentier Investors/CGI Glass Lewis

Our proxy voting record by region



Source: First Sentier Investors, as at 31 December 2021

Appendix

Proxy voting guidelines

The following is a non-exhaustive list of illustrative examples of voting issues and our current position:

Board

- **Directors/non-executive directors** – boards should comprise of a majority of independent directors. We consider independence of a non-executive director to mean that they have not been former executives of the relevant company for a minimum of five (5) years and do not have a family or close personal relationship with an executive of the company.
- **New directors** – there should be a formal and transparent procedure for the appointment of new directors to a board. The Chairman and a majority of the members of the Nomination Committee should be non-executive, independent directors.
- **Number of board appointments** – non-executive directors must balance their number of board appointments with their personal ability to provide a meaningful contribution to each board. Similarly, executive directors who have outside directorships need to ensure that their contribution to their current employer is not diminished.
- **Removal of directors** – we will vote against changes to company constitutions that weaken the position of non-executive directors on the board.
- **Retirement by rotation** – with the exception of the Chief Executive, we expect all directors to seek re-election, with one third seeking election each year.
- **Division of roles** – the role of Chairman and Chief Executive should be split. We will vote against board changes involving the Chief Executive becoming Chairman or executive directors becoming non-executive unless there is a clear majority of independent directors.
- **Executive/board misconduct** – we will vote against the appointment of a new director or the re-appointment of an existing director to a board, were we consider their qualifications and experience are inadequate or for instances of executive misconduct.
- **Diversity** – we expect that companies are able to demonstrate diversity of gender, age, ethnicity, sexuality and thought across their organisation and at board level. We are a member of the 30% Club Investor Working Group in Australia and our investment teams actively engage with companies to help achieve the objectives of this group. Where a company has no female directors, following unsuccessful engagement we will vote against any newly appointed male directors.
- **Audit and remuneration committees** – members of audit and remuneration committees should be non-executive directors. Members of both committees should be listed in annual reports and identified on the notice of re-election of directors.

Ownership & shareholder rights

- **Political donations** – we do not support companies making political donations and will vote against any donations made to political parties.
- **Shareholder rights** – in general, we will not support resolutions that propose: changes to the corporate structure that curtail shareholder rights (for example, the right to call a special meeting, a shortened notice period for meetings or the right to nominate director candidates); or changes to the capital structure that could dilute shareholders' voting and/or economic rights.

Remuneration

- **Remuneration** – we expect remuneration structures to be simple, long-term oriented, aligned with shareholder value/return, to encourage responsible risk taking and to the extent relevant embrace broader notions of 'success' (for example, contribution to corporate culture and sustainability outcomes).

- **Disclosure** – we support the principle that there should be full disclosure of directors' total remuneration packages, including share options, fringe benefits and retirement benefits. We expect appropriate justification for levels of remuneration and the link of these to company objectives and performance from the Chairman of the Remuneration Committee.

- **Termination payments** – we believe that payments on termination of executive directors' contracts should not be excessive. In the case of poor performance, a statement of justification should be given. We may write to the Chairman of the Remuneration Committee to ask for details of compensation payments to departing executives if they are not published. Disclosure of any contingent liabilities should be made.

Environmental and social risks

- **Environmental and social risks** – we believe that well governed companies have appropriate environmental and social risk policies and management procedures in place. As part of the governance process, we expect boards to have oversight of these risks and policies, and executive management to be able to publicly report on these risks and their management and indicate where appropriate the potential impact on company earnings.

- **Climate change** – we support the global transition to net zero emissions in line with the goals of the Paris Agreement. We expect companies to enable and support the transition to a low carbon economy and transparent about how they are preparing for this outcome. We will support climate-related proposals that request actions or additional disclosure in line with these statements where we feel that the company is not making sufficient progress.

- **Lobbying** – we will vote against the Chair of companies that actively lobby against climate policy in support of the Paris Climate Agreement. We will also vote against company memberships of organisations, trade groups and think tanks that deliberately and systematically lobby against climate policy in support of the Paris Climate goals.

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