

# Cash and Fixed Interest Sustainability Policy

## Purpose

The purpose of this Policy is to define:

- the principles that guide Altius's management of the Altius Sustainable suite of funds.
- the criteria by which investments qualify for acceptance into the investible universe of the Funds (the Sustainability Screen, or "Screen"); and
- the framework by which the Screen is implemented.

## Sustainability Advisory Committee

This Policy is overseen by the Sustainability Advisory Committee (the "Committee"). The Committee comprises of at least two representatives from Altius/Australian Unity, and two investor representatives, with a maximum of six voting committee members. We reserve the right to alter the membership of the Committee from time to time.

The purpose of the Committee is to:

- make recommendations regarding the appropriateness of this policy;
- oversee the criteria and process applied to the sustainability screen;
- monitor the appropriateness and classification of current holdings in the Funds. The Committee may conclude that some investments are no longer appropriate and recommend removal from the investible universe and/or divestment of existing holdings; and
- discuss investments under consideration for inclusion in the investible universe, and where required, make recommendations to Altius regarding their appropriateness for inclusion.

The purpose of the Committee is not to make specific investment decisions. Recommendations from the Committee require majority agreement. The Committee will meet quarterly, or more frequently as required. Recommendations and approvals may be made by circular resolution.

## Appointment of Sustainability Adviser

An independent external research adviser (Sustainability Adviser) is appointed to provide a sustainability ranking of issuers which will be used as a sustainability screen to determine whether or not issuers are to be included in the investible universe of the Funds.

## Screening Process

### Overview

The Funds apply two levels of sustainability screening involving materiality assessment against a static negative screen coupled with sustainability ratings

- **Hard exclusion**
  - Tobacco production, manufacture of nicotine alternatives and tobacco-based products
  - Controversial Weapons
  - Nuclear Weapons
- **Negative Screen**

Companies will be automatically excluded from the investment universe if their primary business activity

(defined as business revenue exceeding 10%) involves, or become involved in, the following:.

- Armaments
- Tobacco Distribution and Services
- Uranium
- Gambling
- Pornography
- Alcohol production
- The exploration, production, distribution, and services for fossil fuels

Activities are accumulated to assess breaching of the 10% limit

The SAC could provide an exemption for a company for the following reasons.

- Live divestment strategy or
- Commencement of a transition strategy that aligns the business with the Paris Agreement, which is confirmed through 3<sup>rd</sup> party research.

#### Materiality

If a company is involved in (but not as a primary activity) the excluded activities outlined above, the infringement will be assessed for materiality.

An investment in a company would be reviewed for its appropriateness if its non-core business activities constituted more than five per cent of the company's overall business revenue. In such an instance this will be referred to Altius by the Sustainability Adviser and its inclusion in the investible universe will be referred to the committee for consideration. Companies where the materiality of the breach is being assessed will be placed on a watch list.

#### Exclusion period

Exclusion will be for a period of 3 years. This period can be reduced with the approval of the SAC. Altius will be required to present supporting research to the SAC that covers how the organisation has addressed the reason for the exclusion.

SAC will also have the ability to extend the exclusion period if the organisation hasn't addressed the reason for the exclusion.

- **Sustainability ranking**

The remaining investment universe will be given a sustainability ranking by the Sustainability Adviser utilising a scorecard methodology resulting in score from 0 to 100 (worst to best). The Sustainability score is made up of 3 specific ISS modules - their ESG Corporate Ratings, Carbon Risk Rating Assessment and SDG Solutions Assessment.

The ranking process is intended to assess the impact of the issuer's business on societal wellbeing, that is, the issuer's appropriate fit with the sustainable objective of the respective funds.

The Scorecard will consider:

- Environmental effects of the issuer;
- Social consequences of their business; and
- Quality of Governance.

Companies will be scored from 100 to 0 (best to worst). Companies will be given a low score (below 30) if the Sustainability Adviser deems they are materially involved in any of the following:

- causing or perpetuating injustice and suffering
- infringing human rights
- supporting oppressive regimes
- animal testing for cosmetic purposes
- unacceptable environmental management practices or
- unacceptable occupational health and safety practices.

Companies ranked below 30 will be placed on a watch list and referred to the committee to confirm, in accordance with the committee charter, that the company is ineligible for inclusion in the investment universe.

#### Sustainability Advisory Committee discretion

Investment is reviewed for its appropriateness if an issuer's activities are deemed to infringe some environmental or social well-being measures in the second screen criteria but score above 30. In applying this rule, it may be the case that the breach of the principle(s) is considered to be of such a flagrant nature, or that the negative social/environment impact is considered so significant, that continued investment is considered inappropriate by the committee.

#### Divestment guidelines

Where practical, investments will be divested within three months if the investment is reclassified as "excluded".

#### Positive Investment

Where practical, the Funds will give preference to Tier 1 issuers (as defined by our ISS sustainability score) or impact bonds (use of proceeds bond). Targets for these preferred holdings are fund specific and defined within each fund's investment guidelines.

#### **Issuer classifications**

Generally, only issuers ranked neutral or above are eligible for inclusion in the portfolio.

#### Government and semi-government debt from allowed countries

Government and semi-government debt are classed as neutral unless issued by a disallowed country or otherwise determined by the committee. Debt issued by disallowed countries will be excluded. (See Appendix 1 – Disallowed countries.)

#### Supranational debt

Supranational debt, including debt issued by multi-lateral developments banks, will be classed as neutral unless fully or partly owned by a disallowed country. Supranational institutions are deemed to have part ownership by disallowed countries if the Member country has sufficient capital or voting rights to exercise control over policy, in which case they will be excluded.

Supranational institutions are defined consistent with the classification of the recognised credit rating agencies. Moody's rating agency defines supranational entities as having "a dual nature in that they are financial institutions operating on commercial terms while simultaneously serving as vehicles of international public policy". (See Appendix 1 – Disallowed countries.)

#### Asset-backed securities

Asset-backed securities will be classed as neutral (unless excluded by the Committee).

Bank debt

Bank debt will be classed as neutral or above (unless issued a sustainability rating of 30 or below) or issued by a disallowed bank. Debt issued by disallowed banks will be excluded. (See Appendix 2 – Disallowed banks.)

Non-bank corporate

Corporate debt will be classified as neutral or above (unless issued a sustainability ranking of 30 or below). Securities in this universe will then be subject to Altius’ credit research process to analyse the likelihood of an issuer repaying their debt, as well as maintaining enduring profits and adequate capitalisation through the economic cycle. The primary intent is to manage downside risk (of default and ratings downgrade). (Information about this process is available on request)

**Ongoing assessment**

Sustainability rankings will be reviewed at least every quarter to ensure they continue to satisfactorily comply with the principles of the Funds.

**Appendices**

Are made available on request by contacting [investments@australianunity.com.au](mailto:investments@australianunity.com.au) or by calling Investor Services on **13 29 39**

**Appendix 1: Disallowed countries**

Disallowed countries include identified using the Cash and Fixed Interest Country Exclusion Policy.

**Appendix 2: Disallowed Banks**

- Banks domiciled in Disallowed countries
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## Policy administration

<b>Policy Name</b>	<b>Altius Cash and Fixed Interest Responsible Investment Policy</b>
<b>Policy Level</b>	<b>Level 3</b>
<b>Approval Body</b>	<b>Group Executive Wealth and Capital Markets</b>
<b>Date of Approval</b>	<b>22 September 2022</b>
<b>Policy Owner</b>	<b>Chief Investment Officer Altius</b>
<b>Policy Administrator</b>	<b>CIO Altius</b>
<b>Related policies</b>	N/A
<b>Supporting procedures or guidelines</b>	N/A
<b>Date of last review</b>	Jan 2021
<b>Regulator (if applicable)</b>	n/a
<b>Compliance mechanism</b>	N/A
<b>Classification</b>	Internal and external use

### Important information

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