

Green, Sustainable and Social Bond Policy

November 2021

The purpose of this policy is to provide parameters for the definition and selection of Use of Proceeds Bonds Sustainable Linked Bonds, generally referred to as Green, Sustainable, Social bonds and Sustainable Linked product. The policy integrates the ICMA Green and Social Bond Principles and Sustainable Bond guidelines¹ and the ICMA Sustainable Linked Bond/Loan Principles. This policy applies to green, sustainable and social bonds and sustainable linked product considered for inclusion in portfolios managed by Australian Unity's wholly owned Cash and Fixed Interest business, Altius.

Where a bond is not issued under a use of proceed or sustainability linked bond framework but otherwise meets the objectives of this policy and the Cash and Fixed Income Sustainability Policy guidelines, this security may still be considered for investment.

The following definitions must be satisfied if issued under the below structures.

Use of Proceeds

The decision to include a Use of Proceeds bond in the investible universe will be based on the assets/projects funded and not the Issuer of the debt. Issuer risk will be addressed as part of the standard credit review process and any ESG specific guidelines of each fund.

Green bond proceeds should be allocated to green projects that display a positive environmental impact, Social bonds should have clear objectives that aim to address or mitigate a specific social issue and/or seek a positive social outcome, while a Sustainability bond will have a combination of projects that meet either the Green or Social Bond criteria.

Use of Proceeds Definition

The ICMA Green (GBP) and Social (SBF) Bond Principles are voluntary guidelines that are used to improve market transparency, disclosure and promote the integrity of the Green, Social and Sustainable Bond market. There are four core components that define a Green, Sustainable or Social Bond.

All Use of Proceed bonds purchased must satisfy our assessment that all of the following steps (or a sufficient number of steps with regard to compensating processes) to qualify as a Green, Sustainable or Social Bond for our portfolios:

- 1 Use of proceeds
- 2 Process for project evaluation and selection
- 3 Management of proceeds
- 4 Reporting

Use of Proceeds: Proceeds of the bond issue must be utilised for green or social related projects. Recourse is to the Issuer of the debt not the project or asset. Proceeds should be earmarked for green or social projects by the Issuer. All projects should have a clear environmental or social benefit. Projects should reference a globally excepted Taxonomy such as the Climate Bond Initiatives Climate Taxonomy².

¹ <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>
<https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>
<https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>
<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-Principles-June-2020-171120.pdf>

² The systematic classification and definition of qualifying items is termed a 'taxonomy', and in the case of classifying and defining green assets and projects, it can be termed 'climate-aligned' or 'green' or 'sustainable finance' taxonomy, whether it is identifying assets that address climate change only, broader environmental benefits or both social and

Process for Project Evaluation and Selection

Issuer should state

- 1 The environmental objective
- 2 How projects were selected and what criteria they align to (taxonomy)
- 3 Disclose any exclusion criteria or any potential environmental or social risks associated with the projects.

For best practice, issuers should seek a second party opinion that verifies the Sustainability Framework of the organisation is credible and impactful and aligns with four key components of either the Green Bond Principles, Social Bond Principles or Sustainability guidelines. Independent verification (Pre/Post issuance), should cover areas such as attestation of the tracking process used for the funds, allocation of funds, asset/project alignment with designated taxonomy criteria and any other relevant claims of the Issuer. Third Party Certification may also be obtained by the Issuer but is not essential.

Management of Proceeds

Issuers should have a well-defined process by which funds will be tracked throughout the life of the bond. This should be independently verified.

Reporting

Issuers should commit to reporting on a regular basis. Reports should detail a list of assets/projects including a general description of allocated amounts. Reports should also provide general details of environmental benefits such as annual energy produced or saved and/or avoided emissions.

Sustainable-Linked Bond (SLB) Definition

The ICMA SLB principles are voluntary guidelines used to recommend security structure, disclosure and reporting. Unlike use of proceed structures SLB funding is classified as general working capital. Instead an SLB is linked to the performance of key performance indicators (KPI's) in achieving pre-defined sustainability targets.

A SLB should satisfy the five core components as set out in the ICMA principles when determining whether an investment will be made.

1. Selection of Key Performance Indicators (KPI's)
2. Calibration of Sustainability Performance Targets (SPT's)
3. Bond characteristics
4. Reporting
5. Verification

Selection of KPI's

Key to the SLB is the selection of the KPI's which should be credible and material.

KPI's should be

- Relevant, core and material to the company's overall business and significant for the future operations of the business
- Measurable or quantifiable
- Externally verified
- Able to be benchmarked.

Calibration of SPT's

- Represent a material improvement in the defined KPI's and beyond "business and usual" practices
- Be able to be compared to benchmarks

environmental impacts (https://www.climatebonds.net/files/files/CBI_Taxonomy_Tables-Nov19.pdf)

- Be consistent with the company’s overall sustainable strategy
- Provide a pre-defined timeline for delivery of strategy

Issuers should appoint an external reviewer to ensure the alignment of the SLB to the five key principles of the SLBP.

It would be expected that the reviewer assesses the relevance, robustness and the reliability of the KPI’s and make sure the SPT’s are ambitious and align with the issuers strategy.

Bond Characteristics

The key foundation of an SLB is that the bonds financials and/or structural characteristics can change depending on whether the issuer delivers on the documented KPI’s based on the pre-defined SPT’s. Generally, the change of the issuer’s coupon is the most common practice but other structural changes could occur.

Changes to the issuers bond financials and/or structural characteristics should be “commensurate and meaningful” in-order to drive change from the issuer.

The ICMA SLB principles have not sort to define the bond financial or structural changes but have provided flexibility for market innovation.

Reporting

The issuer needs to commit to reporting. Reports should detail as a minimum the following.

- Up to date information on the performance of KPI’s
- A Verification assurance report with respect of the performance against the SPT’s and related impacts.
- Information that allows the investor to monitor the SPT’s level of ambition. This could include updated Sustainability strategy or analysis of the relevant KPI’s and SPT’s

Verification

As with the traditional “Use of Proceed” structures issuers should seek independent and external verification. Verification should be of the SPT’s performance against each KPI. Verification should be conducted by a qualified external consultant with the relevant experience. Checks of the SPT’s performance to KPI’s should be completed a least annually until the trigger event date is reached. Performance of SPT’s should be made public.

Policy Administration

Policy Name	Green, Sustainable and Social Bonds Policy
Policy Level	Level 3
Approval Body	Platform GE
Date of Approval	November 2021
Policy Owner	Altius Asset Management
Policy Administrator	Secretary, Altius Sustainability Advisory Committee or delegate
Related Policies	Cash and Fixed Income Sustainability Policy
Supporting procedures or guidelines	-
Date of last review	April 2020
Regulator (if applicable)	-
Compliance mechanism	Compliance with this policy is monitored using: - internal controls
Classification	Internal and External use