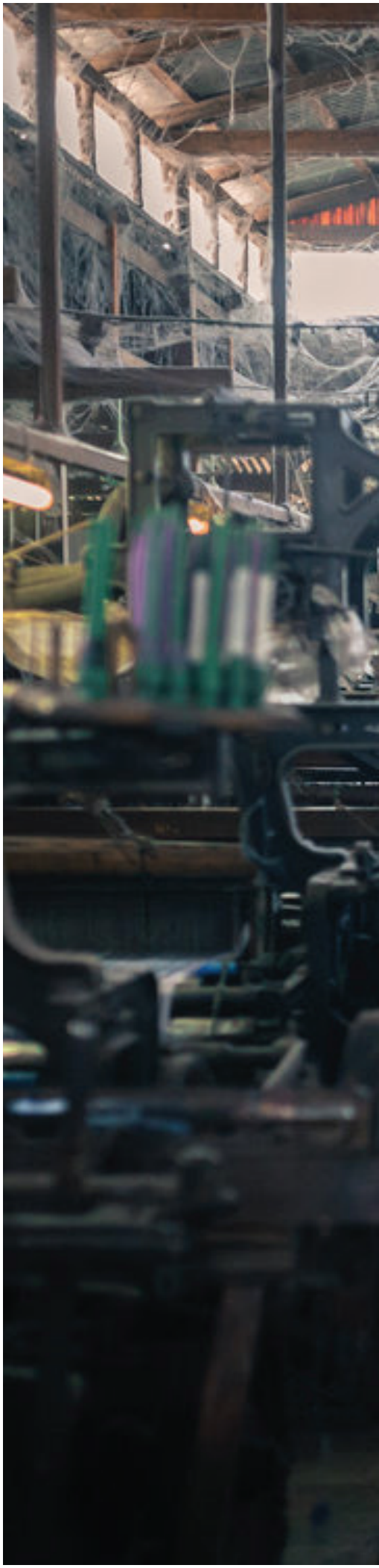
EthicalPartners
FUNDS MANAGEMENT

2021 ETHICAL STANDARDS REPORT

Transparency + Disclosure in the Australian Company Landscape

www.ethicalpartners.com.au

We thank Ethical Partners' team of dedicated equity and sustainability analysts for their continued hard work on our Ethical Partners Opportunity and Risk Assessment (EPORA) analysis and this report. We also would like to sincerely thank our clients for the privilege of managing their money and affording Ethical Partners the ability to advocate with companies for better ESG reporting and practices on their behalf.



EthicalPartners
FUNDS MANAGEMENT

A letter from our Sustainability Team

The events of the two years that have passed since our inaugural Ethical Standards Report in 2019 have been tumultuous and eventful but have cemented ever more firmly the understanding that sustainability and ESG factors are crucial to a company's standing in society, their licence to operate, their reputation, their opportunities, their fiduciary duty, financial returns and their long-term viability in a rapidly changing world. It has also become increasingly clear, as we move further into the Decade of Action on the Sustainable Development Goals (SDGs), towards a point of no return in global warming, and as we celebrate 10 years of the UN Guiding Principles of Human Rights, that the world needs companies to move more rapidly to address the accelerating global issues facing humanity today.

The COVID-19 pandemic has provided us as a society with a chance to reflect, to question the direction in which the world is heading and to try to "build back better". The events of the Black Lives Matter movement and Juukan Gorge have brought much needed attention to systemic racism and indigenous rights. A flurry of Net Zero Commitments by countries and corporates has rapidly brought climate risk management to the forefront of corporate and investor conversations. Australia has seen high profile incidents regarding sexual harassment and child protection causing chaos in boardrooms, and share prices. Regulation and legislation have also been increasingly changing the goalposts on corporate reporting and attention to ESG and climate matters.

Unfortunately, COVID-19 has also worsened the situation for many women in the workforce worldwide has caused Child Labour and Modern Slavery to increase, worsened inequality and exposed the vulnerability of many contracted and gig workers. It has shown us the vulnerability of workers in global supply chains, and the procurement practices that underlie these vulnerabilities. It has derailed progress on some environmental goals, like single use plastics and waste but also created a window and a sense of possibility around other environmental goals such as emissions reductions and air pollution. It has shown us clearly the risks of biodiversity loss, deforestation and zoonosis. It exacerbated cracks in many companies that had paid poor attention to their ESG risks and showcased the outperformance of many companies who had prioritized treating their workers well. It has brought the often-neglected "S" firmly to the front of investors' minds and emboldened the world to imagine a better "E".

Against this backdrop, the understanding of the role of the financial sector and investors in enabling this change has grown exponentially. Money has flooded into ESG funds. Financial regulators and lawmakers worldwide have markedly increased the requirements on both companies and investors in regard to sustainability. Changing civil society expectations, consumer demand and litigation have also made it abundantly clear that sustainability reporting is no longer a nice-to- have, but a crucial part of a company's responsibility to their shareholders and customers.

We believe that our Ethical Partners EPORA (Ethical Partners Opportunity and Risk Assessment) investment process, through which we assess the sustainability reporting and practices of 216 ASX companies in order to inform our investable universe, investment decisions and engagements, also allows us a unique opportunity to assess to what extent ASX listed companies have joined this global trajectory. It also provides us with a valuable snapshot in time as to the landscape of sustainability reporting across the ASX as a whole.

It is with this lens, and with the aim of encouraging ever improving attention to these important matters, that we share this analysis covering several topical issues that we are engaging on with companies. We have also included some examples of companies that are showing leading practices in their reporting and management of each issue. These examples are not designed to be an exhaustive list, and do not mean that there are not other ASX companies who are also addressing these risks; our examples are simply designed to highlight a couple of best practice companies in order to encourage others.

Across the ASX as a whole we noted some improvements in setting environmental targets and ambitions, and emissions disclosure. We also found some improvements in companies' attention to gender diversity, modern slavery and supply chain disclosure. There were also a handful of companies that had little to no reporting previously and now have implemented a base level of reporting. We also found some leading companies who are increasingly drawing clear links between their sustainabilityand their financial reporting. were and their financial reporting.

However, there is still plenty of scope to improve, with a large number of companies still doing minimum reporting, some who still are not reporting at all, and many examples of rhetoric not backed up with meaningful disclosures of metrics or strategies.

There were also unfortunately several examples where leading policies were clearly not translated into practice, which serves as a meaningful reminder to us as investors that disclosure and reporting is only the first step. Our engagements are crucial to hold companies to the commitments contained within these reports.

Overall, our analysis has found that while sustainability reporting has increased, there are still many areas that require improvement and attention. Additionally, while there is a visible increase in the quantity of reporting, we are very aware that the focus also needs to move from quantity to quality of disclosures and from corporate policy to actual practice. The focus also needs to move from sustainability rhetoric to evidence of clear and defined pathways to achieve sustainability targets. This needs to be followed up with the disclosure of clear, comparable metrics to show progress against these goals. Importantly, investors need to be able to more clearly see how a company's ESG commitments are translated into real world outcomes.

We remain committed to engaging with ASX companies and advocating for these improvements.

Robyn Parkin

Head of Sustainability and Advocacy

Georgina Murray

Sustainability Analyst

A letter from our Co-founders

The 2021 Ethical Standards Report provides an updated snapshot of the ASX market-wide progress on sustainability reporting since our inaugural report in 2019. The analysis is undertaken in-house by our team of skilled market practitioners who have an extensive knowledge of companies, the people who run them, sustainability and markets.

An investment in the Ethical Partners Australian Share Fund (the Fund) is an investment in a portfolio of companies with sound fundamentals that have higher standards with respect to their ESG approach. Our ongoing internal analysis, conducted through our proprietary EPORA, systematically identifies companies which are creating change, avoiding pitfalls and adjusting their approach to doing business in a world where sustainability counts.

As a result the Fund has exposure to significantly more positive sustainability characteristics than that of the ASX200 (the Market):

- On Climate: 53% of companies in the Fund have Net Zero commitments versus only 29% of companies across the Market. 64% of companies in the Fund have Carbon Emissions Targets compared to 48% for the Market. And 50% of companies in the Fund are reporting against the TCFD standard versus 32% for the Market.
- On SDGs: Across the Fund 69% of companies refer to the SDGs, versus 49% for the Market, and 17% of companies in the Fund have integrated the SDGs into their business practices versus only 5% for the overall Market.
- On Diversity: More companies in the Fund have disclosed disability policies and practices (25% Fund vs 9% Market) and racial policies and practices (50% Fund vs 45% Market) than the Market.
- On Human Rights: More companies in the fund (58%) have a human rights policy than the market (46%).
- ESG in Remuneration: More companies in the Fund (25%) have ESG metrics in Remuneration than the Market (18%).

We believe that holding a portfolio of companies selected from the group with higher ESG standards and strong fundamentals will deliver competitive returns for the medium to long term.

However, despite the fact the Fund generally has better ESG metrics than the market, and our unit holders are better positioned for the future as a result, we are always cognisant there is still much work to do. Many of the above numbers remain too low right across the whole ASX cohort, in absolute terms, and we will continue to work hard on engaging with companies in these key areas.

Nathan Parkin

Investment Director and Co-founder

Matt Nacard

CEO and Co-founder


ETHICAL BEHAVIOR

At a glance:

SUSTAINABILITY REPORTING

8/10

of the 216 ASX companies we analysed now have sustainability reporting

But this means 20% still do not have any sustainability reporting

MODERN SLAVERY REPORTING

Modern Slavery reporting is progressing well with:

Over

8/10

companies publishing a statement

However, only 2 statements addressed their risk of exposure to forced labour from the high-risk Xinjiang region

CLIMATE RISK

Corporate attention to Climate Risk across the ASX is slowly increasing yet:

Only

6/10

companies clearly disclose their emissions data to shareholders

Nearly

5/10

companies have set any emissions targets

Only

3/10

companies have a Net Zero target

Only

3/10

companies report fully against the TCFD

SDGS

Just Under

50%

of companies refer to the SDGs in their reporting

REM

Less than

2/10

companies include meaningful E & S metrics in REM

DIVERSITY TARGETS

Over

9/10

companies are now providing
some gender disclosure or targets

However, just over

4/10

provide any disclosure
on racial diversity

Less than

1/10

provide any disclosure
on disability diversity/inclusion

Less than

1/10

have a written
Reconciliation Action Plan

BIODIVERSITY

5/10

companies do not address
their impact on biodiversity

PLASTIC

Just over

3/10

companies address
their plastic footprint

WATER

Just over

3/10

companies acknowledge
their water risks

HUMAN RIGHTS

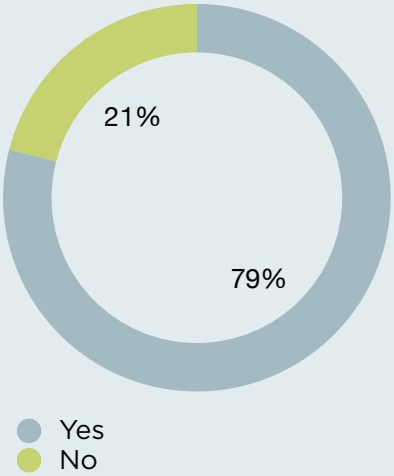
Less than

5/10

have a specific
human rights policy

ESG TRANSPARENCY AND DISCLOSURE:

8/10 ASX companies now have sustainability reporting



While this statistic has improved in the two years since our 2019 standards report which showed 40% had no sustainability reporting, we believe that it is not acceptable to still have 21% of the 216 ASX companies we assessed not proactively and comprehensively reporting on their ESG impact, risks and opportunities.

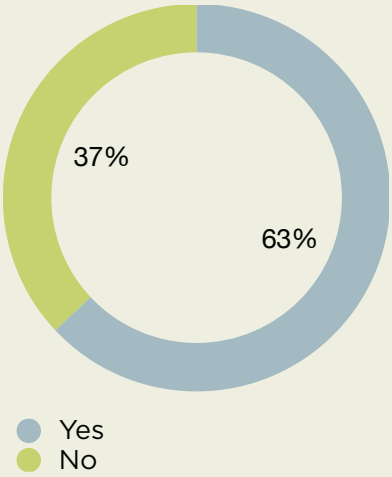
As we noted in our previous standards report, we believe that all investors need to understand sustainability issues in detail to assist both investment decisions and engagements with companies towards improving practice. This understanding has only accelerated in the past two years where the impact of ESG issues on a company's future trajectory and profitably has been shown more clearly than ever. The importance of social licence and a company's impact on the world has never been more pertinent to consumers, shareholders and the world as a whole.

We believe that sustainability reporting is an absolute minimum requirement for companies to show their commitment to caring for their communities, people and the planet. Such reporting also addresses their shareholders' needs for assurance of the company's understanding and mitigation of their risks and opportunities. Furthermore, companies are increasingly communicating to Ethical Partners in our engagements that the process of undertaking sustainability reporting has been a beneficial experience for them in better understanding their own operations, and identifying areas for improvement than benefit both shareholders, people and the planet.

We continue to advocate for the remaining 21% of these companies to begin reporting. In the other 79%, we continue to engage for improved reporting and clear, measurable evidence of progress against their plans and targets. For these companies, the conversation needs to move beyond quantity of reporting to quality of reporting, from policies and programs to evidence of practice and from greenwashing to meaningful action against global challenges.

CLIMATE:

Just 6/10 companies clearly disclose their emissions data to shareholders



Alarmingly, in our analysis of 216 ASX companies, 37% (80 companies) do not clearly disclose any emissions data to shareholders.

Ethical Partners believes it is absolutely crucial for a company to proactively and clearly disclose their emissions data. It is increasingly obvious that we are living in a rapidly changing world, undergoing an accelerating energy transition and decarbonisation. Without emissions data, shareholders cannot assess a company's climate risk or opportunities, nor understand and account for the company's impact on climate nor their alignment with global goals such as the Paris Agreement. Shareholders will find it increasingly difficult to make decisions on investments, valuations or portfolio construction without this crucial information, particularly as many shareholders themselves are increasingly being required to achieve Net Zero targets within their own portfolios. Investors are themselves increasingly being required to report on and decrease their own portfolio emissions footprints, and without accurate and complete company level emissions data, this is rapidly making investment in these companies more difficult.

Furthermore, we believe that proactive emissions disclosure shows investors a company understands and is mitigating their own climate risk with its associated financial impacts. Investors of course will need to see further disclosure on how this emissions disclosure informs future business strategy, planning and governance, but Ethical Partners believes that actual emissions disclosures are the bare minimum to allow shareholders to analyse the management of and progress against climate risks a company's operations.

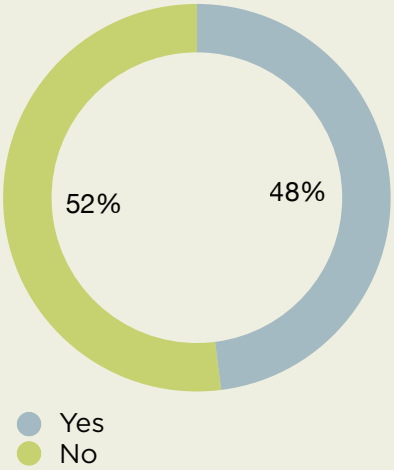
Ethical Partners firmly believes that ASX companies must rapidly improve this level of disclosure to remain relevant in a changing regulatory, fiduciary and investment environment.

Nearly 5/10 companies have set some Emissions Targets

In our analysis of 216 companies, 48% of companies now have set emissions targets of varying ambition. This has moved substantially from the 12% of companies reporting any emissions targets in our 2019 Standards report. However, this means that over half of ASX companies have yet to set any emissions targets.

As noted above, we believe it is now crucial for investment decisions that companies provide clear, ambitious and defined, interim and long-term emissions targets for their operations. It is crucial that these targets are also backed up by transparent, detailed planning of how they are going to get there, alongside clear metrics that assess and disclose the progress against these targets. Ethical Partners also encourages companies to include these targets in their Remuneration structures, and to clearly show the governance responsibilities, board attention, internal resourcing and capex allocated to achieving these goals.

The Scope of these emissions targets is also crucial, when supply chain emissions are on average 5.5 times as high as a corporation's direct emissions (CDP, 2019). Unfortunately, only 8 of the 216 ASX companies we analysed have Scope 3 reduction targets.

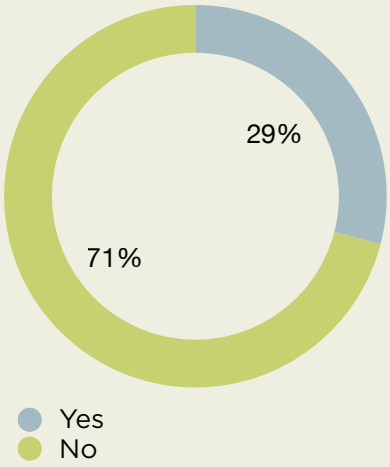


3/10 companies have a Net Zero Target

Encouragingly, 29% of the 216 ASX companies (63 companies) analysed have made a commitment of Net Zero by at least 2050.

While Ethical Partners welcomes, applauds and encourages these Net Zero commitments, we are also cognisant that the challenge now lies in how companies can show investors these commitments are genuine and tied into all aspects of business strategy. Net Zero commitments must include clear details of the companies planning and pathways for achieving this goal and ambitious near-term interim targets. Investors need to be able to see how the company will be resourcing, governing, and managing their trajectory towards these commitments, and how the commitment has been embedded and integrated into the company's operational strategies and financial planning. Additionally, investors will need to know how progress towards these targets is being assessed, revised and disclosed.

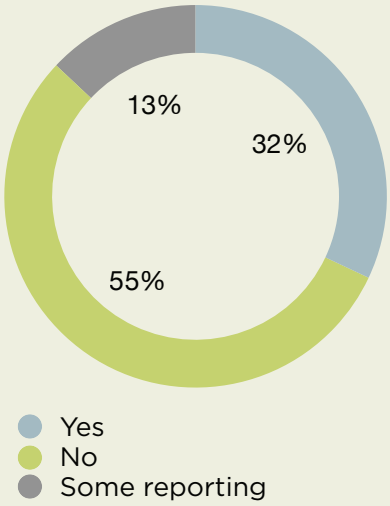
As noted above, the Scope of these targets is crucial for the world to properly address climate change, but unfortunately, no company we analysed has Scope 3 included in their Net Zero target.



LEADING COMPANIES IN THIS SPACE:

BHP, Woolworths, Oz Minerals, NIB, Mercury, IAG, Medibank, Meridian.

Only 3/10 companies report fully against the TCFD



In our analysis of the 216 ASX companies, we found that 32% (69) report fully against the TCFD, while another 13% (28) are on their way to full TCFD reporting or reporting somewhat in line with the TCFD criteria. The large majority of these companies was contained within the ASX 100. While this has clearly increased in the two years since the 2019 Standards Report, in which only 11% of companies were reporting against the TCFD, it is clear the ASX still has a long way to go in regard to TCFD reporting, particularly in the smaller cap end of the market.

The TCFD is rapidly becoming mandatory across many jurisdictions internationally and calls for mandatory reporting for Australian corporates are intensifying. The IGCC, PRI and CDP recently set out a roadmap to establish mandatory TCFD reporting in Australia over the next few years. APRA's 2021 prudential practice guide also calls on companies to measure, monitor and manage climate related financial risks, including physical risk, transition risk and liability risk. We believe the TCFD provides companies with a good framework from which to do this.

We agree that clear consistent reporting on climate risk using the TCFD will benefit both corporates and investors, ensure financial markets can properly price and act on the physical and transition risks of climate change. We also believe that TCFD reporting provides us as investors with valuable insight into how companies are understanding and managing their climate change risks, while also giving the company valuable insights into their own climate risk management and areas for improvement. We also agree with the IGCC, PRI and CDP that TCFD reporting also needs more transparency on the assumptions and inputs into scenario modelling, stress testing against the tougher 1.5C degree scenario and a consistency in scenario modelling across the market to allow comparison and consistency.

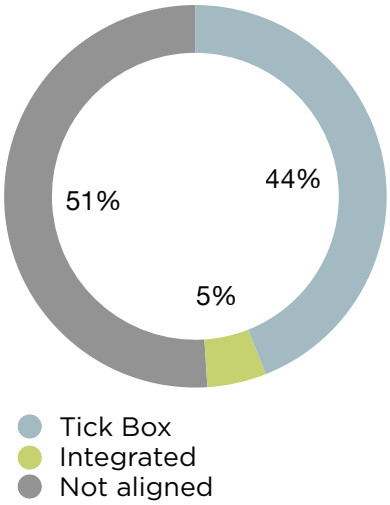
We encourage the 55% of companies assessed who have not yet reported against the TCFD to begin to do so and for the 13% of assessed companies that are reporting partially in line with the TCFD criteria to progress to the full TCFD reporting framework in order to better prepare for future regulatory changes and reap the full benefits of the TCFD for internal risk analysis.

LEADERS FOR TCFD REPORTING:

Mirvac, Macquarie, Brambles, Meridian.

SDG REPORTING:

Just under 5/10 of companies refer to the SDG's in their reporting



Only 49% of companies of the 216 ASX companies we assessed refer to the Sustainable Development Goals in their reporting. While this has substantially improved since our 2019 Standards Report, where only 21% of companies assessed referred to the SDGs in their sustainability reporting or public disclosures, we believe that it is imperative that the other 51% of companies who are not addressing their impact on the SDGs begin to do so.

It is clear that all parts of society will be required to achieve the SDGs, and that business has a very important role to play. Accelerating consumer, shareholder and wider societal expectations of the role business must play in reaching these goals have also become increasingly clear over the last two years. Unfortunately, we remain markedly off-track globally to achieve these goals by 2030, with COVID-19 setting back progress even further. We further believe that the SDGs are a valuable tool for investors to ensure companies are aligning their ESG strategies with realistic and necessary global goals, with defined priorities and targets. We believe that the SDGs also provide companies with a universal and accessible framework to help companies assess the impact their operations on the world – both positive, negative and potential. There is a clear business and moral case for companies to use this framework to assess and address their risks and furthermore, to identify opportunities to create impact, innovate, and create solutions to very real challenges.

Only 5% of companies have what we assess as fully integrated these SDGs into their strategy and reporting, with 44% of the companies addressing their impact on the SDGs in a more superficial "tick-box" fashion. In order to avoid "rainbow washing" that evidence of claimed alignment with an SDG must be backed up by evidence of impact. Corporate action on SDGs must move past a superficial, tick-box or retrofitted alignment approach to one where the SDGs are clearly translated into the company's business model, long-term strategies and real-world outcomes. Unfortunately, across the companies we analysed, very few clearly link their operational goals, strategy and targets with the SDGs which makes assessing real progress towards achieving them difficult to determine.

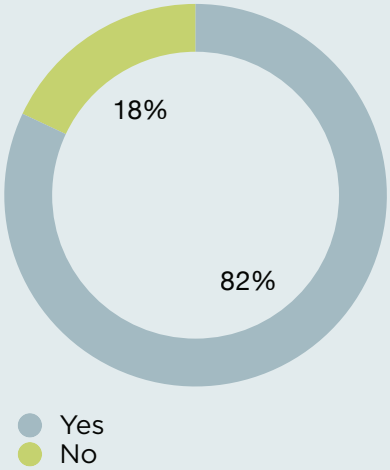
Companies need to be able to define and monitor comparable metrics on how they are integrating the SDG targets and indicators into their operations and measure their progress against these. Shareholders also need to be able to clearly see how the company's operational strategy directly aligns to the claimed SDG at the target/indicator level. They also need disclosure on the core operational changes, resourcing and governance mechanisms that have been made to address the company's stated SDG goals. It is crucial that companies address their negative SDG impacts, as well as their positive impacts ands think more deeply about how they can have potential impacts on an SDG through changing their business practices, not just retrospectively aligning the SDG with their current business activities.

LEADERS:

Brambles, Transurban, ANZ, IGO, Woolworths, Wesfarmers.

REM:

Less than 2/10 companies include meaningful E & S metrics in REM



Only 18% of the 216 ASX companies included what we assessed as meaningful environmental and social (E & S) metrics in Remuneration. This shows that the integration of explicit E and S issues into executive pay in the ASX is still in its infancy, particularly in regard to disclosing the actual targets linked to these metrics.

While several other reports have found much higher percentages for "ESG related pay", our own internal analysis found that many of these company's metrics included safety, employee satisfaction, customers and governance, but not explicit targets on a company's progress against environmental or social issues. Ethical Partners believes that many of these issues should be seen as "standard" governance and operating issues which should be part of the executive's base pay, and that believe there is a real opportunity to better address the E & S portions in the majority of ASX company's remuneration structures.

Ethical Partners believes there is a strong case for companies to include detailed sustainability metrics in their incentive plans that are material and aligned with long-term strategy. We believe that the inclusion of these specific targets in Remuneration structures will inevitably influence corporate decision making. We also believe that the inclusion of specific targets (such as emissions reduction targets, biodiversity targets or other clearly defined metrics aligned to the companies environmental or social commitments) gives a clear indication to shareholders of the company's commitment to their ESG strategies, their understanding of the materiality of ESG as a core performance target, and additionally, provides shareholders with comfort about the likelihood of the company achieving these ESG goals as well as a method to hold companies accountable for the attainment of these goals.

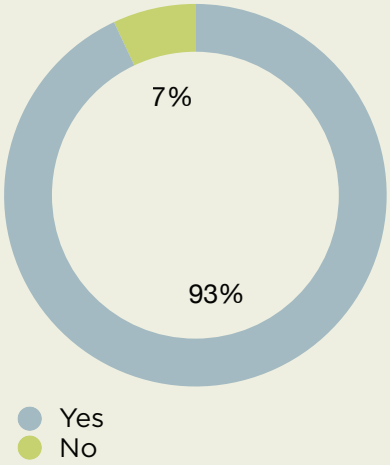
LEADERS:

South 32, GPT Group, Bluescope, Mercury, Oz Minerals, Wesfarmers.

DIVERSITY:

Over 9/10 companies provide some gender disclosure or targets

Our analysis showed that the 216 ASX companies that we assessed are progressing well on their gender disclosures, with 93% of the companies now disclosing gender metrics and/or committing to targets to improve their gender diversity mix. We encourage these companies to further consider targets such as the HESTA 40:40 initiative and to widen their disclosures and attention to gender pay gaps and enabling factors for gender equality, such as childcare, flexible work practices, and supportive programs such as UNICEF's Family Friendly Workplaces.

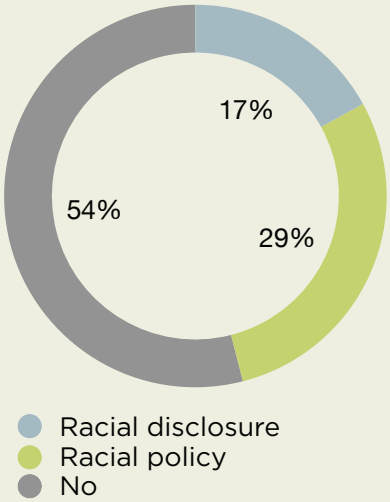


Just over 4/10 provide any disclosure on racial diversity

There is a crucial need for companies across the ASX to widen their attention to other diversity categories, such as racial diversity. Global events of the past year have brought much needed attention to systemic racism and issues of corporate racial diversity yet disappointingly our analysis found that only 45% of the 216 ASX companies provided any disclosure on racial diversity – either metrics or policies.

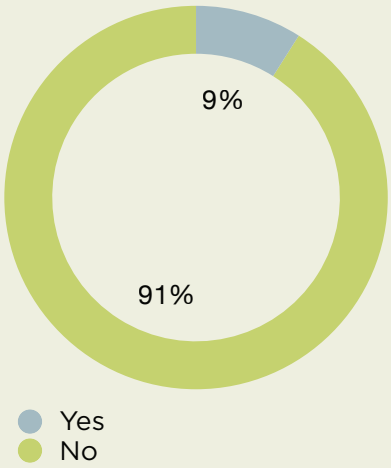
This is despite a 2020 Governance Institute report which found that over 90% of board members in the ASX 300 are from an Anglo-Celtic background, while directors from non-European backgrounds sit at 6.3% in the ASX 100 and 5% on the ASX 200 and 300 boards. This is concerning to us as investors, because as well as the increasing expectation for companies to partner in addressing racial equity issues, there are well proven and tangible financial benefits in creating a diverse workforce that encourages inclusivity with equitable employment practices.

Ethical Partners therefore believes that ASX companies need to have detailed policies that encompass all areas of diversity and inclusion, as well as showing investors the action plans on how they will ensure that these are embedded into their core operations, including their recruitment, retention, advancement, representation and pay. We further believe that investors have a responsibility to more actively advocate for listed companies to improve this reporting, as there are clear indications that investor/financial sector advocacy post the BLM movement has been effective and contributed to the appointment of nearly 200% more black board directors across the S&P 500 in the past year.



Less than 1/10 provide any disclosure on disability diversity/inclusion

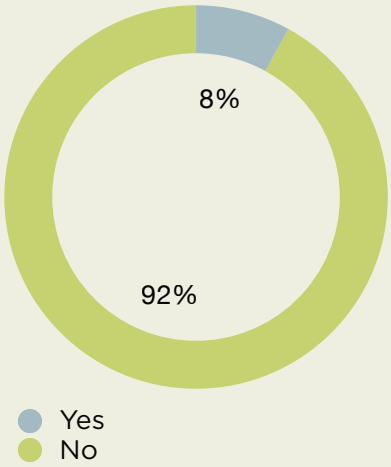
Our analysis also found that disability diversity is particularly poorly addressed with only 9% of companies specifically implementing disability inclusion practices or policies. ASX companies have a responsibility to improve their practices regarding disability inclusion through their product design, services, customer support, accessibility and employment practices and staff support. In addition to the clear social responsibility of companies to address the inequality and underemployment experienced by those who identify as having a disability, Accenture also found there is a strong business case for companies to address their disability inclusion with those companies identified as leaders in disability employment and inclusion reporting substantially higher revenue, net income and profit margins.



Less than 1/10 have a written Reconciliation Action Plan

The tragic and regrettable Indigenous Rights outcomes of several Australian corporate activities during the past year have rightly elevated Indigenous Rights to the forefront of thinking for Australian investors. It is increasingly clear that addressing Indigenous Rights is both a responsibility, and also a risk factor for Australian companies. Unfortunately, our analysis found that corporate disclosure on how companies are addressing these challenges remains very poor.

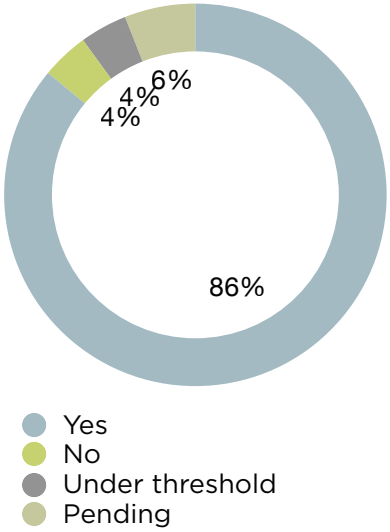
It is crucial for companies to plan and show shareholders how their business strategy and operations plan to develop respectful relationships, create meaningful opportunities with Aboriginal and Torres Strait Island peoples and to clearly show that they understand and are mitigating their negative impacts on our Indigenous Peoples. Reconciliation Action Plans can provide a useful framework for companies to both consider and disclose their contributions to reconciliation both internally and in the communities in which they operated. We also strongly encourage companies to report on how they adhere to the UN Declaration on the Rights of the Indigenous Persons (UNDRIP), Free Prior and Informed Consent (FPIC) and to consider and disclose their progress on indigenous representation, rights and diversity throughout their employment, training, procurement, policies and operational activities.



LEADERS IN VARIOUS DIVERSITY ISSUES:

NIB, Qantas, Woolworths, Mirvac, Medibank, Commonwealth Bank, Coles, Mercury, South 32, Macquarie, Meridian, Westpac, ANZ.

Over 8/10 companies have a Modern Slavery Statement



86% of the 216 ASX companies we analysed had submitted a Modern Slavery Statement this year at the time of analysis. While 4% of the 216 ASX companies analysed fell under the legal threshold and obligation to report, we would encourage these companies to also ensure they provide adequate disclosure for investors on how they are addressing Modern Slavery. We believe all companies should be able to show their shareholders that they are adequately addressing the risks of Modern Slavery, forced labour and human rights within their supply chains, regardless of their size or turnover.

Our analysis found that the vast majority of disclosures were quite basic, which while not surprising given it is the first year of reporting, is something that we will need to see make dramatic improvement over the coming years. Ethical Partners expect ASX companies to markedly enhance their depth of analysis beyond the first tiers and to increase their understanding of their supply chains, Modern Slavery risks and the enhanced due diligence and remediation required to address these human rights violations.

Best practices noted through our analysis in leading statements included comprehensive risk identification methods, detailed disclosures providing examples across the supply chain where they found modern slavery and how they remediated it and showing how the company has updated policies or procedures as a consequence of the Modern Slavery reporting exercise. The leaders are also undertaking enhanced due diligence, moving past a reliance on supplier contracts and self- assessment questionnaires, improve auditing practices and are additionally using worker rights education and effective grievance and worker voice mechanisms. The leaders also provide details on how they are integrating their policies into practice and their core business operations. Other leading practices in the statements include an attention to procurement practices and underlying drivers of Modern Slavery such as living wages, migrant labour, sub-contracting and lack of visibility through COVID.

Importantly, the leading statements clearly show investors the improvements the company has undertaken to address modern slavery as a result of the reporting process itself. Other best practices noted in leading companies included analysis beyond Tier One of their supply chains, extensive training of relevant business units, board and directors or the inclusion of modern slavery management into Remuneration. Other issues our analysis identified include the overreliance on self-assessment supplier questionnaires, and a shortage of attention to worker voice or alternative worker led methods of addressing modern slavery such as the Cleaning Accountability Framework, the Fair Farms or other certification schemes.

Our findings echo detailed analysis of the inaugural statements conducted by Fair Supply, who found an over-reliance on supplier contract clauses, a lack of effectiveness of grievance mechanisms, a notable omission of remediation strategies across the ASX, a lack of board training on Modern Slavery and very few companies who have taken their assessments beyond Tier One.

These are all areas that Ethical Partners strongly encourages ASX companies to better address in their next Modern Slavery Reporting next year and are issues that we continue to engage on deeply with the companies we meet.

Only two statements specifically addressed their risk of exposure to forced labour from the Xinjiang region and have identified the actions they are seeking to take to mitigate the risks here

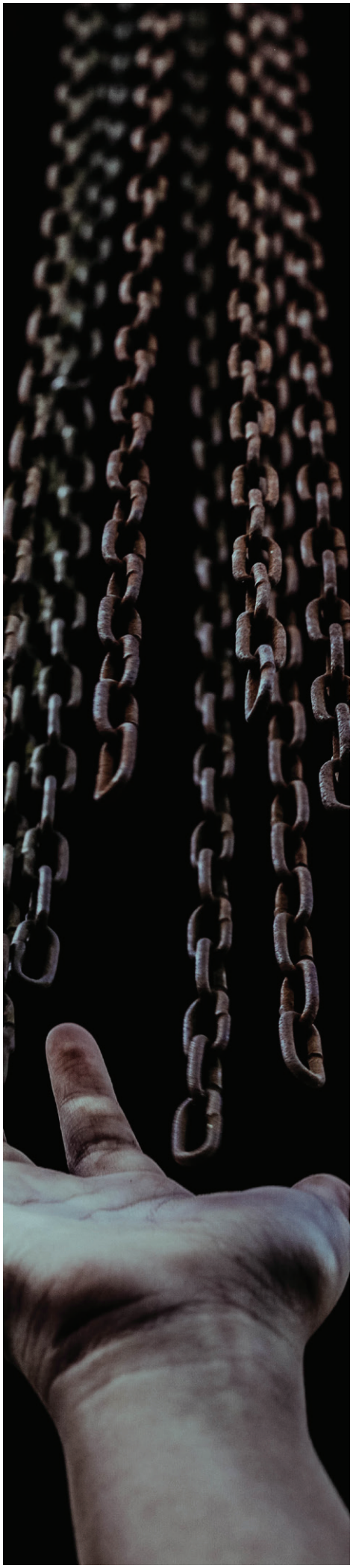
These companies were Woolworths and Kathmandu, who both submitted statements that we analysed as leading. This means, however, that 99% of the 216 ASX companies analysed have failed to address whether they have any exposure to this particularly high- risk area. Detailed analysis by the NGO Be Slavery Free has also found that at least three companies known to be sourcing from Xinjiang did not identify this as a risk in their modern slavery statements and that there are many companies sourcing from China who do not highlight any areas of high risk within this jurisdiction.

Ethical Partners believes that ASX companies need to markedly improve how they are understanding and addressing the particular risks faced in this region. Evidence has clearly shown the abhorrent human rights violations involving the Uyghur people, to which Australian investors and corporates are markedly exposed through the import of products and their supply chains. Products as diverse as textiles, garments, gloves, footwear, fish, tomatoes, bricks, hair and nail products, cotton, yarn, electronics, toys and Christmas decorations have been found to be produced by Uyghur Forced Labour and have been the subject of import bans overseas. When the range of potentially tainted products is so wide, and Australia imports more than $80 billion worth of products a year from China, it is clear that the risk of Uyghur Forced Labour is likely to be much higher than reflected within Modern Slavery reporting across the ASX.

Ethical Partners strongly urge ASX companies to address and disclose their sourcing from this region, identify the Xinjiang area as high-risk, and clearly show investors what strategies they are taking to mitigate this risk in their supply chain.

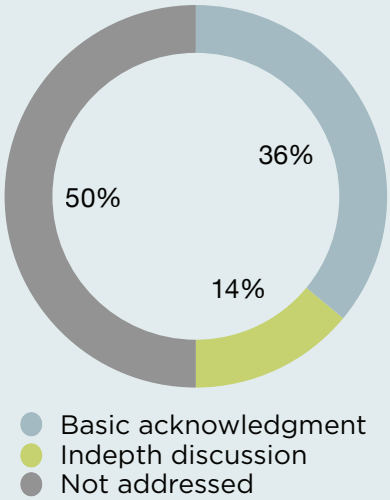
SOME MODERN SLAVERY REPORTING LEADERS:

Kathmandu, Woolworths, Bega, Fortescue, Bluescope, South 32, Wesfarmers.



BIODIVERSITY:

5/10 companies do not address their impact on biodiversity



Unfortunately, 50% of the 216 ASX companies we analysed do not address their impact on biodiversity at all. Of the 50% that do acknowledge biodiversity as a risk, only 14% have moved past a basic acknowledgment of the issue to any deeper disclosures of how they mitigate their impact on biodiversity through their practices.

While climate change has been a larger focus for Australian companies, discussion around biodiversity, an interconnected environmental issue, has been lacking. It is crucial that all businesses address biodiversity better. The Global Risk report has named biodiversity loss as one of the top 5 risks currently facing the world, while the WWF found that populations of mammals, birds, fish, reptiles and amphibians declined by 60% between 1970 and 2014 driven by the complex interaction of unsustainable consumption, pollution, climate change, alien invasive species and habitat conversion for economic and social endeavours. Biodiversity loss is also a systemic risk for investors and business alike. The WEF has found that more than half of the world's gross domestic product (US$44 trillion) is moderately or highly dependent on nature and its services and that the unprecedented loss of biodiversity places this value at risk. The volatility and disruption of the COVID-19 pandemic, of which habitat destruction and deforestation was a contributing factor, has only underlined the urgent need for action on biodiversity.

Importantly, while business relies on healthy ecosystems to thrive, it is also a driver of significantly negative impacts on biodiversity resources. While the materiality of or effects on biodiversity issues may differ between companies, we believe that all companies can understand their impact on nature through considering the interconnectedness of biodiversity with other environmental and social risks they must also address, such as climate change and carbon emissions, water, sustainable agriculture and fisheries, pollution, waste, circular economy, deforestation, green building and infrastructure design, land use and remediation, over exploitation of resources, chemical usage, social, indigenous and human rights issues, like inequality, poverty and living wages, land rights and FPIC, as well as the need for transparent supply chains, effective corporate governance and a meaningful commitment to achieving the SDGs to which they are materially aligned.

We encourage companies across the ASX to report on their impact, actions, opportunities and risks as it pertains to biodiversity. This includes developing and disclosing their strategies for their material risks and their governance mechanisms. Regulatory moves internationally, leading towards the adoption of the TNFD (Task Force on Nature-related Financial Disclosures) by mid-2021, are likely to impact Australian companies in the near future, and we would encourage all ASX companies to look towards this framework as a way through which biodiversity risks, similar to climate risks in the TCFD, can be measured and accounted for in future business decisions.

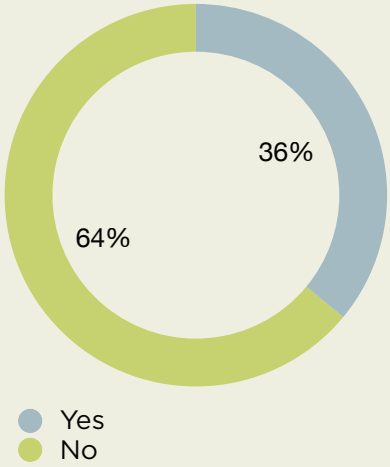
We encourage the companies that are addressing biodiversity risk to continue to lead the way with deeper, more meaningful disclosures of how they are mitigating the negative impacts of their core business operations on biodiversity, how they are maximizing business opportunities by finding ways to positively impact biodiversity, and how these initiatives are being tied into core business strategy.

SOME BIODIVERSITY REPORTING LEADERS:

S32, NAB, UMG, IGO, Meridian, CBA, Bega, BlueScope, A2 Milk, Brambles, Graincorp, Mirvac.

PLASTICS:

Just over 3/10 companies addressed their plastic footprint



Our recent EPORA analysis found that only 36% of companies addressed their plastic usage. This is particularly concerning given the well-known plastic pollution problems facing the world today. Globally, only 9% of plastics are recycled, which has resulted in 6.3 billion tonnes of plastic going to waste. It has been predicted that by mid-century there will be more plastic waste than fish in the oceans. Plastics kill more than 1.1 million seabirds and animals a year and the average person eats around 70,000 microplastics a year with unknown consequences for human health. There is also a huge carbon emissions footprint from plastics from production right through to incineration. It is clear that companies need to address their plastics footprint in order to meet other environmental goals including climate change and biodiversity. While plastic risks are more material in some sectors of the markets than others, all companies can address their plastic footprint, no matter how big or small.

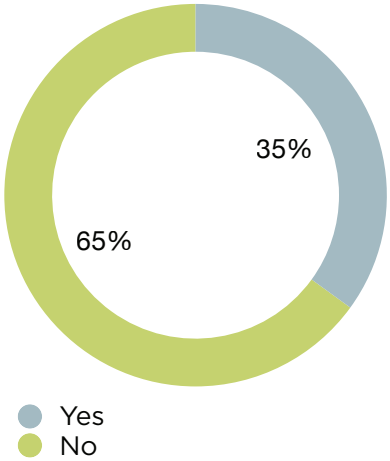
More pleasingly, our analysis found that 64% of companies are addressing their overall waste in some capacity. However it also showed that the integration of the concept of a circular economy into corporate strategy is still in its early stages in ASX companies as a whole. It is becoming increasingly clear we can no longer ignore the risks of a linear economy, in which raw natural resources are taken, transformed into products and then disposed of. Instead, a circular economy is a shift to a system that looks beyond the current "take-make-dispose extractive industrial model" and designs waste out of the system. According to the Ellen Macarthur Foundation, a shift to a circular economy development path has the potential to halve carbon dioxide emissions by 2030. More companies across the ASX need to begin to think with this mindset and embrace business strategies and products that minimise and design out waste from the beginning and to embrace the rethink, reduce, reuse, repair, refurbish, recover and recycle mindset, rather than just dealing with their waste at the other end.

SOME LEADERS IN THEIR MANAGEMENT OF PLASTICS OR WASTE:

Blackmores, Brambles, Kathmandu, Rio Tinto, Westpac, Qantas, Woolworths, Bega.

WATER:

Just over 3/10 companies acknowledge their water risks



It has been reported that over a quarter of humanity faces looming water crisis. Water demand is expected to exceed supply by 56% within the decade, and many parts of Australia are already under significant water stress, which is projected to worsen in the coming decades. Many sectors of the Australian economy are very water intensive such as agriculture, energy and mining, yet dramatic decreases in available water supplies are forecast driven in part by climate change. Concerningly, water risk is very much underappreciated by many of the ASX 216 companies we analysed, despite the fact that water can pose a very material financial risk for companies through regulatory, reputational, operational or market risks.

Additionally, it is extremely important for a company to consider its own impact on water and to consider how it can play its part in protecting this precious resource. Freshwater is one of the nine planetary boundaries our world is currently rapidly approaching, risking abrupt and irreversible shifts in the hydrological system. In addition to shortages of water, companies also need to consider their impacts on water pollution, water quality and ocean health. Companies need to be able to show investors how they are considering the SDGs indicators on water and ocean health, and how they can better utilise research, improved product design or improved business practices to assist in achieving these goals.

It is also clear that companies that address and improve their water usage may accrue cost savings, avoid financial or operational affects from regulatory changes, litigation and changing market conditions, and additionally, may capture a green premium in the market. Additionally, companies are able to provide comfort to their shareholders and attract future investment through better disclosure on how they are managing their water risks. There is also an increasing recognition of the need for investors and corporates to seize opportunities to provide solutions for our pressing natural capital issues such as water, and of the potential financial rewards for the companies that are able to address these opportunities.

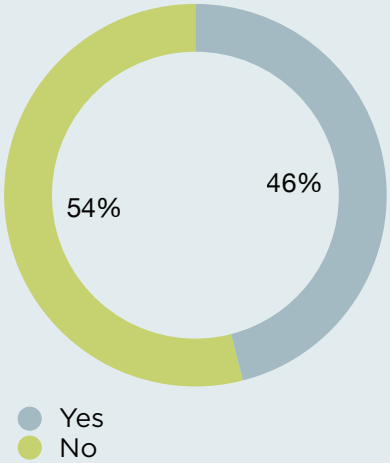
Ethical Partners believes that ASX companies need to better report metrics and data on their water use, and for more companies to set water reduction targets, with clear deadlines and pathways to achieving these. Investors also need to see the results of company water risk assessments, and how these risks are being integrated into their operational strategies and financial planning, as well as their governance mechanisms around water risks. Companies also need to be able to show investors what changes they can make to be part of the solution to the global water crisis, and furthermore, what business opportunities they may have identified.

SOME COMPANIES WHO ARE LEADING IN ADDRESSING WATER RISKS:

Coles, Fortescue, GWA Group, Mercury, Woolworths, Orocobre, IGO, Bega.

HUMAN RIGHTS POLICY:

Less than 5/10 have a specific human rights policy



This year marks ten years since the UN Guiding Principles on Human Rights were formulated. These principles outlined a number of steps that businesses should take to embed human rights into core practice and provide a framework to manage human rights risks through due diligence. The first step of this process was to adopt, implement and integrate a human rights policy throughout a company's operations and supply chain. Unfortunately, our analysis of 216 ASX companies showed that only 46% (100 companies) had a specific human rights policy. This has barely changed since our first standards report in 2019, which found that only 43% of companies had a human rights policy – an increase of only 3% in two years.

While some of the other companies analysed do have supplier code of conducts or sustainability policies that include elements of human rights, we believe all ASX companies should implement a stand-alone human rights policy. The process of developing a clear and detailed policy on how the company can address their responsibility to respect human rights can provide a company with valuable insight into their operations, footprint and impact on people. This can allow them to proactively identify and mitigate these risks or gaps in practice.

This process will help to stimulate the training, resources, capacity, and governance mechanisms necessary to manage human rights risks within their operations. Companies that can provide necessary comfort for their shareholders and customers of their commitment to human rights will stand to gain financial benefits through their enhanced reputation and trust, and attractiveness for investment and employment. It will also help address their responsibility to society and maintain their social licence to operate. Lastly, companies that are leading in how they have integrated human rights into their policies and operations will be well placed to deal with likely legislative and regulatory changes such as the moves to mandatory human rights due diligence through the EU.

Of course, as previously noted, human rights policies alone do not mean good human rights practice, so companies must also be able to show how they are putting these policies into practice and disclose metrics and programs that address their specific human rights risks. Companies should also show evidence of integration of the policies into everyday operational strategy, resourcing and operational activities.

LEADING COMPANIES IN TERMS OF HUMAN RIGHTS POLICIES:

ANZ, BHP, Fortescue, Wesfarmers.

"Overall, our analysis has found that while sustainability reporting has increased there are still many areas that require improvement and attention. The focus now needs to move from quantity to quality of disclosures, from corporate policy to actual practice and from sustainability rhetoric to evidence of clear and defined pathways and trajectories to achieve sustainability targets. Disclosure of clear and comparable metrics shows progress against these goals.

Most importantly investors need to be able to more clearly see how a company's ESG commitments are translated into real world outcomes. We remain committed to engaging with ASX companies and advocating for these improvements."

About Ethical Partners:

EPFM is a boutique Australian Fund Manager that is fully owned by its staff and founders. EPFM has a dual focus on long term performance and investing ethically. Our approach directly manages risk and identifies opportunity for our clients, provides the ability to invest in line with our clients' values and actively advocates for change.

EPFM is a bottom up, long only stock picker that invests in Australian Equities. We pursue investment in companies that pass both our investment process screens, examining financial strength, cash flow metrics, shareholder structure and management and our proprietary Ethical Partners Opportunity and Risk Assessment (EPORA) which assesses ESG and Responsible Investing considerations.

Ethical Partners sees that ESG factors are fundamental to assessing both a company's business risks and opportunities and views ESG as a core pillar to our Investment Process. Businesses that take seriously how they treat people and the environment will ultimately do better than those companies that don't. The benefits of businesses behaving with more thoughtfulness and care for people and the environment will be enjoyed by society, their employees, their environment, as well as their shareholders.

OUR VALUES

Responsibility. We are responsible for our clients' money. We are responsible, where appropriate, for influencing the way companies conduct their business. The financial services industry as a whole has a responsibility to do things better and have a positive influence on the environment, human rights and society. We want to play an important part in this.

Accountability. We are accountable for the decisions we make to all our stakeholders. We are accountable for performance. We are accountable for our clients' money. We realise that there are consequences to the actions we take. We will stand by our decisions and what we believe in. We won't always be right but we will always be accountable.

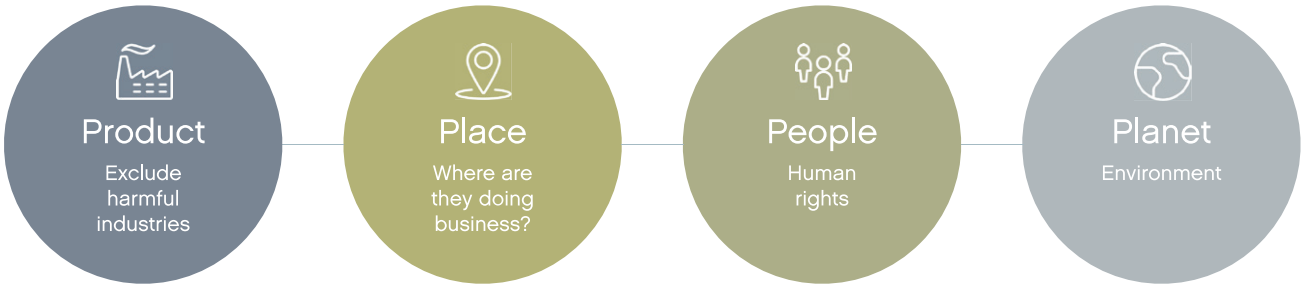
The confidence to be different. We understand that our views on companies, the market and the way we invest may be different to a majority of others. We have the confidence in our process, our approach and our decisions. Sometimes the best decisions for the long term are the ones that aren't recognised at the time or require courage of their conviction in the short term.

Please find more about Ethical Partners, including our Responsible Investment Policies and information on how to invest at our website www.ethicalpartners.com.au

The EPORA:

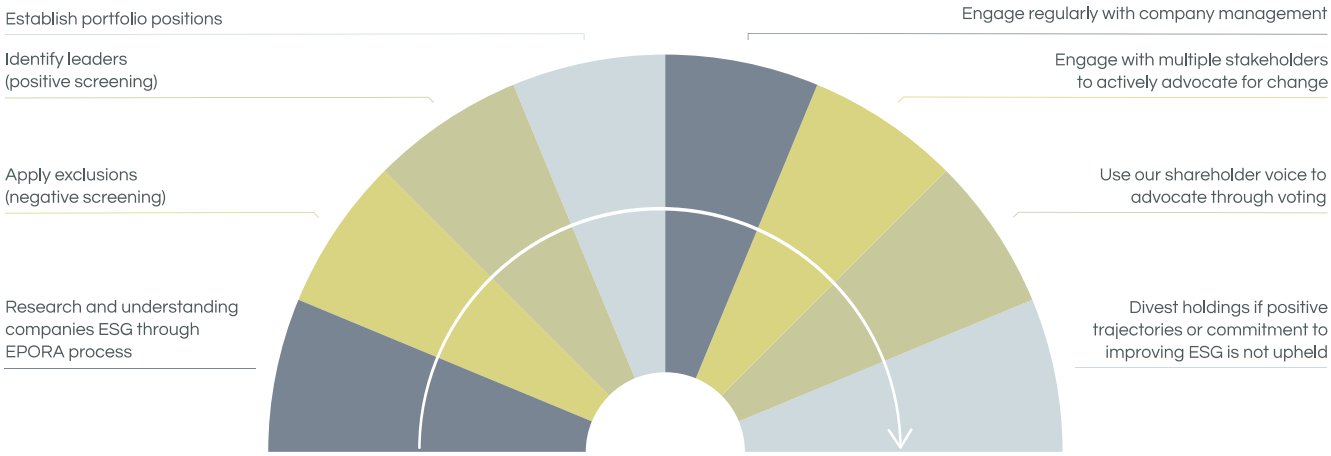
For the Ethical Partners Australian Share Fund all companies must pass all areas of our proprietary EPORA in addition to key financial metrics. The EPORA includes a thorough assessment of:

- Whether a company's product is harmful, at which point we apply a negative screen and remove the company from our investable universe. Exclusions include alcohol, uranium, gambling, weapons, tobacco, fossil fuels, predatory lending, fossil fuels;
- The company's place of operation (country risk) using the Transparency International Corruptions perceptions index;
- Their impact on the planet, assessing multiple pertinent, material and relevant issues and themes;
- Their impact on people, assessing multiple pertinent, material and relevant issues and themes.



Companies must pass this EPORA screen, as well as our traditional financial investment screens, including financial strength, strong operating cash flow, shareholder structure and good management and governance practices to be considered for investment.

As informed by this EPORA assessment, Ethical Partners endeavours to buy the leaders (positive screen) where valuation is reasonable and fundamentals are sound. Ethical Partners will also buy and engage strongly with the "middle" (the 80% of ASX companies which are not excluded and not classified as a leader) on ESG matters as this holds the potential for large scale change across the market. Ethical Partners may divest from a portfolio stock when we see increased risks or lack of true progress and evidence of change.



The team:

Matt Nacard

CHIEF EXECUTIVE OFFICER

Matt Nacard is the Chief Executive Officer and Co-Founder of Ethical Partners. He has around 20 years' experience in financial services, most recently prior to Ethical Partners as Co-Head of Asia Equities (including Japan) at Macquarie Securities where as an Executive Director he managed up to 430 people across nine markets. He has been a rated equities analyst in both Australia and Asia. As someone who is passionate about equities research, while at Macquarie he was the Head of Equities Research in Australia from 2010 to 2013 and Head of Hong Kong Research from 2008 to 2010. Matt has done extensive not for profit work including strategic input, Board membership and fund raising for various charities.

Nathan Parkin

INVESTMENT DIRECTOR

Nathan Parkin is the Investment Director and Co-Founder of Ethical Partners. He has 25 years' experience in Australian financial markets including most recently prior to Ethical Partners as Deputy Head of Equities at Perpetual Investments. He was at Perpetual for 12 years (over two periods) and as Deputy Head of Equities he directly managed over $6.5bn in funds under management. Nathan was the Portfolio Manager for Perpetual's Australian Share Fund, Industrial Share Fund, Ethical SRI Fund (that won a number of industry awards) and Institutional mandates. He has also had experience as an equity analyst, equities dealer and Head of Institutional Business. His not for profit work includes significant fund raising and school Board membership.

Andrew Wilson

SENIOR ANALYST / DEALER

Andrew Wilson is a Senior Analyst and is responsible for Dealing. He has 12 years' experience in Australian financial markets on both the buy side and sell side. Most recently Andrew worked at Bank of America Merrill Lynch in their Equities division and prior to that was working at Ord Minnett in their Emerging Companies team. Andrew previously spent time working on the buy side at 452 Capital where he was in charge of dealing. Andrew has been involved with various fund raising efforts and has a passion for charitable work.

Robyn Parkin

HEAD OF SUSTAINABILITY

Robyn's role at Ethical Partners encompasses working alongside our CEO and Investment Director to coordinate Ethical Partners ESG strategy, and working closely with our team of analysts to both conduct and integrate EPFM's own in-house ESG analysis into our investment process and policies. It also involves continual, deep and active engagement with Australian companies on sustainability issues, coordinating EPFM's sustainability research, reporting, team education and ESG related shareholder voting and wider advocacy and collaboration with civil society, NGO's, legislators, media, academics and researchers. Robyn is also a Manager of the Ethical Partners Tatrai Giving Fund. Robyn has qualifications from the Cambridge University Institute of Sustainability, Postgraduate qualifications in International Public Health and is currently completing a Masters of International Development.

Georgina Murray

SUSTAINABILITY ANALYST

Georgina's role at Ethical Partners involves working with our Head of Sustainability on company analysis and engagements, sustainability research, team education, reporting, ESG shareholder voting, collaborations, advocacy, NGO relationships, policy and ESG strategy development. Georgina holds qualifications in International and Global Studies from the University of Sydney, and has undertaken courses with the PRI Academy (Foundations of Responsible Investing), Oxford University (Impact Investing), the Australian Institute of Management and Women & Leadership Australia. Georgina has been a Mentor and Contributor at Altiorem since 2019, and has 7 years' experience in the NGO sector with UNICEF at Management Level.

Zeljka Black

SENIOR ANALYST

Zeljka Black joined Ethical Partners in June 2020. She has 20 years' experience in Australian financial markets, most recently as Equities Analyst at Ausbil Investment Management, covering the Banking and Diversified Financials sectors. Prior to that Zeljka worked at 452 Capital and Audant investments, covering a broader range of sectors across the industrials market in addition to financials. Zeljka has completed a Bachelor of Mathematics and Finance (UTS), a Graduate Diploma of Applied Finance and Investments (FINSIA) and is also a CFA Charterholder. She has been involved in fund raising for various charities and is an avid supporter of charitable causes.

Kapil Gahir

ANALYST

Kapil Gahir is an analyst and is responsible for stock research across various sectors. He has 9 years' experience in financial markets across unlisted buy side and sell side. Kapil was most recently at Australian Super in their infrastructure investments team and prior to that was at Deutsche Bank in their real assets buy side division. Kapil started as an investment banking analyst at Deutsche Bank working across industrials, consumer, healthcare, property and utilities. He has been involved in fund raising for charities and activities helping the community.

Renee Hetreles

OFFICE AND ADMINISTRATION MANAGER

Renee Hetreles is the Office and Administration Manager. Having over 20 years' experience in banking and financial markets, her knowledge of financial products includes several different asset classes including equities. She has strong managerial skills in operations and administration, as well as extensive experience in accounting and compliance. Her focus has always been providing clients and stakeholders quality service in a middle office/ back office capacity. Her most recent role was managing the accounting and administration at agricultural company IKON Commodities Pty Ltd. Starting her career at Credit Suisse, Renee spent over eight years managing the back office at J B Were.

Jacob Tran

PORTFOLIO ANALYST

Jacob Tran is the Portfolio Analyst and is responsible for investment operations functions in the business. He has seven years of experience in financial services across various roles within funds management. Jacob was most recently at Alliance Bernstein as an Associate in their Portfolio Management Group and prior to that was at Perpetual as an analyst in their Investment Operations team.

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RESPONSIBILITY. ACCOUNTABILITY. THE CONFIDENCE TO BE DIFFERENT.