Navigating investment in a post-COVID world

How can investors drive positive change?

First Sentier
Investors

2020 was a year like no other, with COVID-19 reshaping the way we live, work and invest. As the year began, we were forced to reassess how we interact with each other, how complex systems work together and how nature has more power over us than we normally like to admit.

Our Approach to Responsible Investment

First Sentier Investors' purpose is to deliver sustainable investment success for the benefit of our clients, employees, society and our shareholders. Our vision is to be a provider of world-leading investment expertise and client solutions, led by our Responsible Investment principles.

We recognise that the individual and collective decisions we make as investors have far-reaching implications. While our business is to protect and enhance the value of our clients' assets, we are aware of our wider responsibilities, such as upholding the quality and integrity of the financial markets we invest in and the allocation of capital to productive purposes that contribute to a sustainable economy and society.

During the course of this unique year, the First Sentier Investors (FSI) Responsible Investment (RI) Steering Group has continued to set the direction and strategy for RI within the firm. This included extensive discussions about how RI will continue to develop in a post-COVID world.

We believe that 2020 will prove to be a watershed year for RI. As we emerge from the pandemic, there will be an ever-increasing focus on how companies impact the world around them and how they earn their social licence to operate (SLO). A critical, intangible corporate asset, SLO refers to the broad, ongoing social acceptance that a company has a right to do business.

The key to the SLO equation are the stakeholders who hold companies to account. Governments, regulators and customers all play vital roles, and so do investors. Every decision about where we allocate capital is a vote regarding a company's fitness to be in business.

We take our responsibility as stewards of our clients' capital seriously, and this is why we believe in ongoing, meaningful engagement with companies on their environmental, social and governance (ESG) performance. We are committed to proactively engaging with management to foster better practices around issues including carbon emissions, human rights, diversity and workplace health and safety.

We believe that active managers have both an opportunity and a responsibility to be active. In a post-COVID world, we will all be searching for lessons we must take away from the pandemic. It is important that we use this opportunity to recognise the positive impact investors can make, and to continue looking at how we can work collaboratively with the companies we invest in.

Three broad issues, which we have been focusing on for some time, will take on even more importance as we emerge from the current pandemic:

1. **Climate change and biodiversity**
2. **Human rights and modern slavery**
3. **Workplace diversity, health and wellbeing**

In this white paper, we assess how all of these issues have been impacted by the COVID-19 pandemic, how we anticipate they will develop and how they align with the Sustainable Development Goals (SDGs).

Our Approach to the Sustainable Development Goals

The Sustainable Development Goals (SDGs) were adopted by all United Nations Member States in 2015 as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030.

The 17 SDGs are integrated—that is, they recognize that action in one area will affect outcomes in others, and that development must balance social, economic and environmental sustainability.

First Sentier Investors supports the SDGs. We believe that investors have an important role to play in allocating capital towards meeting these goals.

In addition, we believe that the SDGs serve as a good framework for measuring how our investments and how we as an organisation contribute to sustainable development, which is a priority for us moving forward.

Part

1

Climate Change and Biodiversity
2020: Climate Change action in the spotlight

During 2020, we witnessed a renewed and often urgent focus on climate change action by a range of stakeholders. The scale of the devastating Australian bushfires in late 2019/early 2020 brought climate change even more to the fore in this region. It was swiftly followed by the pandemic, and prompted many people to demand more urgent action around climate change.

The pandemic was a stark reminder that nature can wreak havoc on our lives and economies, regardless of humans' best efforts to stay in control.

In terms of climate action, environmental non-government organisations (NGOs) have increased their sophistication and coordination globally. Their influence and credibility have grown as the impacts from a changing climate have become clearer, particularly following the Paris Climate Change Agreement.

At the same time, the diversity and reach of the growing civil society movement have sharpened SLO risks faced by companies, investors and financiers who fail to take action on emissions reduction. There is now a broad expectation that companies will act to reduce their carbon footprint, and both social and mainstream media are willing to loudly critique perceived inaction.

This activism has continued to target companies and investors during the pandemic. For example, at the Woodside Petroleum AGM[1] in April 2020 there was a record breaking level of support for a shareholder resolution for the company to set targets for Scope 3 emissions and extensive media coverage following the meeting.[2] Meanwhile, a 25-year-old Brisbane man sued a large superannuation fund for its perceived failure to manage climate change risk.[3] The fund was prompted to make a range of commitments, including to reach Net-Zero greenhouse gas emissions for the scheme's investments by 2050.

In Europe, the economic turmoil wrought by COVID-19 has made conversations around a green recovery even more important. Attention has turned to The European Green Deal, which is an action plan for the EU to be climate neutral in 2050, by boosting the efficient use of resources, moving to a clean, circular economy, restoring biodiversity and cutting pollution. It seeks to achieve this by:

- Investing in environmentally-friendly technologies
- Supporting industry to innovate
- Rolling out cleaner, cheaper and healthier forms of private and public transport
- Decarbonising the energy sector
- Ensuring buildings are more energy efficient
- Working with international partners to improve global environmental standards

As the final point suggests, this will likely spur other countries into action as well.[4] With U.S. President Joe Biden re-joining the Paris Agreement in February 2021, the stage is set for renewed vigour on climate action across the globe.

In Australia, the CEOs of 22 of the country's biggest companies, including BHP, Commonwealth Bank of Australia, AGL, Rio Tinto and Wesfarmers, have launched a coalition to reduce emissions in line with the Paris Agreement. The Climate Leaders Coalition will begin as an information sharing project, with hopes that it will eventually lead to ambitious projects in renewable energy, low-carbon technology, green finance and carbon investment.[5]

1. For illustrative purposes only. Reference to the names of each company mentioned in this communication is merely for explaining market insight, and should not be construed as investment advice or investment recommendation of those companies. Companies mentioned herein may or may not form part of the holdings of First Sentier Investors.
2. https://www.smh.com.au/business/companies/breakthrough-moment-woodside-investors-revolt-on-climate-change-20200429-p54oe8.html
3. https://www.abc.net.au/news/2020-11-02/rest-super-commits-to-net-zero-emmissions/12840204
4. Certain statements, estimates, and projections in this document may be forward-looking statements. These forward-looking statements are based upon First Sentier Investors' current assumptions and beliefs, in light of currently available information, but involve known and unknown risks and uncertainties. Actual actions or results may differ materially from those discussed. Readers are cautioned not to place undue reliance on these forward-looking statements. There is no certainty that current conditions will last, and First Sentier Investors undertakes no obligation to correct, revise or update information herein, whether as a result of new information, future events or otherwise.
5. https://www.climateleaders.org.au/

Climate Change and Biodiversity
2020: Climate Change action in the spotlight

Institutional investors are not waiting for government action on emissions, especially in Australia where Federal Government policy lacks certainty. Over the course of the year, a number of Australian superannuation funds have followed the path of their counterparts in Europe and moved to set portfolio wide Net-Zero emissions targets. These targets have been accompanied by a roadmap for implementation utilising a variety of tools including divestment, engagement and voting.

Aware Super, for example, rapidly cut the carbon footprint of its equities holdings by 40% in October 2020, after passively excluding the highest-emitting companies on global share market indices, including the ASX200.[6] Described as 'automated mass divestment', this move by the AU$120 billion fund demonstrates that large investors are making significant investment decisions based on companies' carbon footprints. This is unsurprising given the number who have committed to the long-term goal of Net-Zero emissions by 2050.

In the UK, the Brunel Pension Partnership, representing 10 regional pension funds from the south west of England, outlined a new five-point plan to align its investment portfolio with a zero-carbon future.

Over the years 2020-22, Brunel will demand that all material holdings within the funds take steps to align emissions reductions with the needs of the Paris Agreement, while simultaneously improving management and disclosure practices in relation to climate-related risks. Brunel has warned that organisations and investment managers that fail to demonstrate reduced exposure to climate risks could be voted against during board member re-appointments or removed from Brunel's portfolio altogether when a review occurs in 2022.[7]

The new Brunel strategy, is in part designed to overcome industry challenges the scheme perceives as problematic including an emphasis on short-term performances over long-term potential and 'backwards-looking investment risks models' that fail to take future climate risks into account.[8]

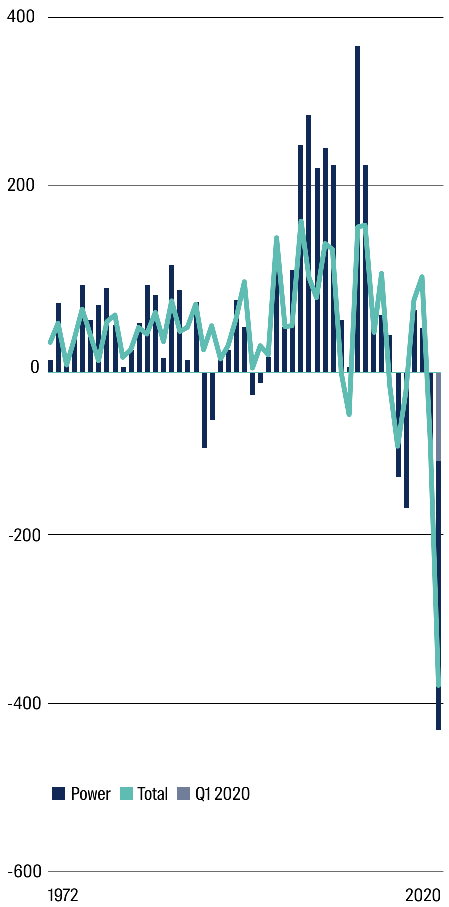
As climate action ramps up all over the world amongst companies, investors and community groups, there will be even more focus on identifying and mitigating the risks of other potential, high-impact global events triggered by a changing climate.

Managing the risks of climate change has long been a focus in our own portfolios, and will continue to be prioritised at a portfolio and corporate level. We are investing in better tools to help our investment teams, Global Investment Committee and boards further understand and manage climate-related risks and opportunities. Over the course of the year we intend to work with various parts of the business including our Climate Change Working Group to implement these tools. As a result of this work we expect to release more comprehensive climate change disclosure, to complement the Task Force on Climate-related Financial Disclosures aligned disclosure we released in 2017.

Lockdowns changed the energy market

The lockdowns implemented in response to the COVID-19 outbreak dramatically curtailed electricity use and industrial production in most countries, pushing down global coal consumption. The following International Energy Agency (IEA) data reflects this trend.

Annual change in coal demand, 1971 - 2020



Source: IEA, https://www.iea.org/data-and-statistics/charts/annual-change-in-coal-demand-1971-2020, 30 April 2020

The reduction in demand squeezed high-cost-to-serve technologies out of the market, evidenced by the 20% reduction in demand for coal-generated electricity in the U.S. Conversely, as renewables capacity was added, demand for renewable energy is estimated to have increased by 15% during 2020[9]. Given the competitive costs of renewable power generation when compared to coal and nuclear, we anticipate that renewable energy will continue to take market share, and this will only be accelerated if the Biden administration puts a Federal price on carbon.

6. https://aware.com.au/blog/divesting-from-thermal-coal
7. https://www.brunelpensionpartnership.org/
8. https://www.brunelpensionpartnership.org/
9. EIA, October 2020

Case study

Global Listed Infrastructure
Clean, affordable and reliable energy

A U.S. listed regulated utility company[10] is serving 3.5 million electric and 2 million gas customers in eight Midwestern and Western states, primarily Colorado and Minnesota.[11]

We invested in the company due to its combination of strong environmental credentials, and an attractive 5-7% earnings per share growth. This growth is being driven by its investment in decarbonising its power generation assets through measures including: replacing coal with wind; grid advancement; smart meters; transmission; and electric vehicle infrastructure.

Colorado and Minnesota are at the forefront of addressing climate change with adaptive policies promoting cleaner energy generation and electric vehicle infrastructure. In March 2019, Minnesota announced a new set of policy proposals that would require the state's electric utilities to generate power using 100% carbon-free resources by 2050. Colorado has set statutory targets for the state to cut climate pollution by at least 90% by 2050 (relative to 2005 levels).[12] These policies have enabled the significant growth of its wind portfolio, with plans to add 4,700 megawatts of wind capacity to their system – enough to power approximately 2.3 million homes per year.[13]

Its significant investment in renewable energy with limited, if any, impact to customer bills aligns the company with the SDG 7 (Affordable and Clean Energy: ensure access to affordable, reliable, sustainable and modern energy for all). The company is tracking ahead of its home states' climate policies, and is aligned with the UNFCCC Paris agreement to limit global temperatures rise this century to 'well below 2 degrees Celsius above pre-industrial levels'.

By allocating capital to similar companies, we are working towards achieving SDG Target 7.2, to substantially increase the share of renewable energy in the global energy mix by 2030.

10. All company information referenced has come from the Company Report unless otherwise stated

11. First Sentier Investors

12. https://www.mncee.org/policy/policy-framework/

13. https://energyoffice.colorado.gov/climate-energy/ghg-pollution-reduction-roadmap

The Nexus Between Climate Change and Biodiversity

Biodiversity is an important issue that cannot be considered in isolation from climate change. The impacts of climate change such as temperature rises, increases in extreme weather events and increase of carbon dioxide in the atmosphere are already having substantial impacts on biodiversity. At the same time, biodiversity conservation is critical to addressing climate change, meaning that these issues are mutually dependent.

Projections indicate that unless emissions are rapidly reduced, up to 50% of species[13] are forecast to lose most of their suitable climate conditions by 2100 under the highest greenhouse gas emissions scenario.[14]

With the COVID-19 virus 'spilling' from animals to humans, the pandemic has underlined the connection between people, companies, wildlife and biodiversity.

As humans diminish biodiversity by cutting down forests and building more infrastructure, we increase the risk of disease pandemics such as COVID-19. Many ecologists have long suspected this, but as academic studies including from University College London[15] are revealing, while some species are going extinct, those that tend to survive and thrive – rats and bats, for instance – are more likely to host potentially dangerous pathogens that can make the jump to humans.

Analysis of around 6,800 ecological communities on six continents adds to a growing body of evidence that connects trends in human development and biodiversity loss to disease outbreaks.[16] This phenomenon is likely to be the direct result of increased contact between humans, wildlife and livestock, as people move into undeveloped areas. These interactions happen more frequently on the frontier of human expansion because of changes to the natural landscape and increased encounters with animals.

Whilst biodiversity conservation may not be considered critical to a company's SLO right now, we anticipate that it will increasingly be on the agenda, as we emerge from and reflect on the pandemic. As responsible investors with a long-term focus, it is important for us to understand the impact of biodiversity loss on the companies that we invest in and their contributions to the problem.

At FSI we consider that we have an important role to play in the implementation of SDG Target 12.6 to encourage companies to adopt sustainable practices and to integrate sustainability information into their reporting cycle. Additionally, through our current work on biodiversity we also hope to contribute to SDG Target 14.1 to prevent and significantly reduce marine pollution of all kinds.

One practical way we are addressing this issue is through an investor collaboration on microplastics. In collaboration with the UK's Marine Conservation Society, First Sentier Investors is leading a programme to engage with the manufacturers of domestic and commercial washing machines to fit filters to their products. This will prevent plastic microfibres entering the world's marine ecosystems. This technology is available today, but only used by a handful of companies.

Globally more than 840 million domestic washing machines are in use, with one kilogram of washing able to release up to 1.5 million fibres.[17] Across the UK, for example, 9.4 trillion fibres could be released in one week alone.[18] With the advent of technological solutions to fit filters in washing machines, there are now solutions to prevent this serious pollution risk. However, adoption is slow, and we have identified a need to apply group pressure to manufacturers in order to encourage adoption.

13. https://science.sciencemag.org/content/360/6390/791
14. https://theconversation.com/climate-change-could-cause-abrupt-biodiversity-losses-this-century-135968
15. Gibb, R. et al. Nature https://doi.org/10.1038/s41586-020-2562-8 (2020).
16. https://www.nature.com/articles/d41586-020-02341-1, August 2020
17. https://www.nature.com/articles/s41598-019-43023-x
18. https://www.thewi.org.uk/__data/assets/pdf_file/0007/327418/WI_EndPlasticSoup_Report_Stakeholders.pdf

Case study

Stewart Investors

Improving plastic packaging and the circular economy in India

Since its emergence in the 1950s, the plastics industry has grown at a tremendous pace and continues to do so today. Half the plastic currently in existence has been produced after 2005, and manufacturing of these materials might double in the next two decades.[19]

While the convenience, light weight and durability of plastic have their advantages, its mere hours of use for human beings result in environmental impacts over the hundreds of years it takes for the material to degrade.

When Stewart Investors allocates clients' capital to the companies we invest in, we consider both their use of plastics for packaging and how they think about the post-consumer waste it generates. A focus on safety and hygiene during the pandemic has caused a further increase in the consumption of disposal plastic materials, making the issue more urgent than ever.

This tremendous growth in plastic usage, and consequently plastic waste, is particularly significant in emerging markets like India where plastic consumed per capita each year is still relatively low by global standards (at approximately 8-11 kg, compared to Europe at 50-65kg and the U.S. at 68-109kg) but is growing at an average annual rate of 20%.[20] This confluence of current low usage, but the potential for rapid growth, suggested an opportunity to engage with some of the Indian consumer goods companies we own shares in, on behalf of our clients.

In 2018, Stewart Investors convened an interactive forum in Mumbai with these consumer goods companies and the Institute for Sustainable Futures at the University of Technology in Sydney. The discussion centred on the collection of post-consumer plastic waste, increasing the use of recyclable materials in packaging and reducing the total weight of packaging materials used. The timing of the forum coincided with the introduction of nation-wide Extended Producer Responsibility policies that focused on these issues and galvanised companies to find innovative and collaborative solutions.

In the two years since this forum, many of our Indian consumer holdings have made real progress in terms of their approach to plastic packaging material. Most now collect more than 50% of the post-consumer plastic waste generated, by weight, with a goal of collecting a 100% by 2022 at the latest.

Some highlights include a Consumer Production company which aims to use at least 10% of post-consumer waste they collect in new packaging material and use 100% recyclable/reusable material by 2025.[21] For example, they are trialling a post-consumption collection initiative of their own-brand bottles, which they will convert into pallets made from 100% recycled plastic to use in their own supply chain handling operations.[22]

The steps these companies have taken make a major contribution towards a circular economy and a more sustainable approach to consumption. We believe that engagement between investors and companies is one of the most effective ways to drive positive change, and we continue to work with manufacturers on how they approach plastic usage.

19. https://www.nationalgeographic.com/environment/2019/03/un-environment-plastic-pollution-negotiations/
20. https://www.downtoearth.org.in/news/waste/an-indian-consumes-11-kg-plastic-every-year-and-an-average-american-109-kg-60745
21. First Sentier Investors
22. https://www.godrejcp.com/annual-reports/2019-20/ and https://marico.com/page/DigitalReport2019-2020/pdf/Marico%20IR.pdf

Part 2

Human Rights and Modern Slavery

Human rights are a complex and important aspect of responsible investing, which can affect multiple asset classes. Issues around supply chains practices, workers' rights, trafficking and modern slavery are attracting increasing levels of scrutiny from investors, who recognise that companies have legal, moral and commercial responsibilities to respect human rights across in all facets of their operations.

This is not only an ethical issue: companies that fail to meet their human rights responsibilities face reputational and legal risks.

First Sentier Investors has long been focused on human rights in our portfolios, and in 2016 we created a Human Rights Toolkit for investment teams to help identify and manage risks in this area.

In 2020, in response to the introduction of the Modern Slavery Act 2018 in Australia, we narrowed our focus to concentrate on the specific challenges of modern slavery. At the beginning of the year we formed a Modern Slavery Working Group to build on this work and further integrate risk identification and governance into our processes. We learned from experts and from one another as we developed an understanding of the risks within our portfolios and best practice in terms of addressing and reporting on those risks.

Based on these learnings, this group created a Modern Slavery Toolkit which was published in June 2020. The Toolkit provides detailed background on modern slavery risks, as well as case studies of best practice. We are also developing modern slavery portfolio analytics dashboards so that investment teams will be able to visualise key risk areas at portfolio level. Over time we hope to take the expertise we have developed in this area and apply it to our broader human rights approach.

Modern slavery is a significant global issue, with an estimated 40 million victims globally.[23] In order to meet the SDG target of eradicating modern slavery by 2030, we need to be reducing the number of modern slavery victims by 10,000 people per day.[24] However, it has been alarming to see that modern slavery numbers are likely increasing as a result of the pandemic, as outline below. Some of the drivers for this are:

– **Industries experiencing high demand and tight production timeframe**s as a result of the pandemic: e.g., the healthcare supplies working to meet demand.
– **Traffickers and criminals responsible for modern slavery prey on vulnerability,** which is something that has increased as COVID-19 affects industries globally. The International Labor Organziation has provided some initial estimates that between 8.8 and 35 million additional people will be in working poverty worldwide for 2020 (their original estimate for 2020 projected a decline of 14 million people).[25]
– **Victims of modern slavery work and live in conditions that place them at increased risk of contracting COVID-19** - and don't have access to appropriate medical care if they do. Often a fear of being detained or deported keeps victims of modern slavery from reaching out to authorities.

23. ILO, Global estimates of modern slavery: forced labour and forced marriage, 2017

24. International Labor Organization, 2016

25. https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_738742/lang--en/index.htm, March 2018

Case study

First Sentier Investors

Modern slavery risks during the pandemic

In April 2020, our investment teams wrote to 27 companies across the healthcare supplies and apparel industries to ask how they are addressing modern slavery issues amidst the pandemic. In particular, we asked:

- Have they been restricted in their ability to conduct site visits and audits, and how are they managing this?
- Have they taken steps to ensure that workers within their operations/supply chains have access to and are able to practice World Health Organization guidance, and other recommendations, to limit the spread of the disease?
- Do these workers have access to paid sick leave if they are required to self-isolate or care for sick relatives?

We received responses from 13 companies on our target list and went on to have meaningful conversations with many of them.[26] We have been pleased with some of the innovative measures our companies have taken to continue to support workers in their supply chains during this crisis. Examples range from video audits to collaborating with competitors, suppliers, NGOs and governments. We classified companies that responded under a traffic light system, with specific areas to monitor depending on their responses. We will continue to engage with these companies to monitor their progress.

26. https://www.firstsentierinvestors.com.au/au/en/institutional/insights/latest-insights/covid-19-heightens-risk-of-modern-slavery.html

Case study

FSSA Investment Managers
Company engagement helps to improve worker protections

In light of the COVID-19 pandemic, we identified one company as having high exposure to modern slavery as part of this engagement. The company is the world's largest manufacturer of rubber gloves, specializing in examination, surgical, household and industrial gloves. It produces over 45 billion gloves per year and has around 25% global market share. The FSSA team first met management in 2003 and has been a shareholder at various times in the years since.

The company was a clear beneficiary of the surging demand for PPE as the pandemic began to unfold. We had first engaged with this company on modern slavery risks in late 2018 after a number of allegations, reported in the British press, about practices that could constitute modern slavery. The four key issues were: debt bondage; workers exceeding overtime limits; retention of passports; and unsafe factory conditions.

Our conversations with the CFO at the time helped us make our own independent assessment and we were encouraged by notable changes the company was making with regard to its treatment of its workers. These included a mandatory rest day, workers no longer paying recruitment fees and passports being kept safe in workers' dormitories.

We wrote to the company in June 2020 regarding the heightened risk of modern slavery risk in their supply chain. The company provided answers, but our assessment was that these were fairly limited and that the supplier engagement/ labour sourcing policies could have been more robust.

Following this, and ahead of our re-engagement, the U.S. Customs and Border Protection (CBP) ordered a Withhold Release Order (WRO) on two of the company's largest subsidiaries. The WRO targeted recruitment fees (believed to facilitate debt bondage) that had not been remediated to workers hired before January 2019. This is significant as 80% of their workforce were hired throughout 2015 - 2019 and had not yet been reimbursed. The Ministry of Manpower in Malaysia investigated their factories (as it had in response to the 2018 allegations) and declared that there were no instances of 'modern slavery'. However, it was clear to us that recruitment fees must be reimbursed for the WRO to be lifted.

Following the company's reply to our letter and the CBP action, we spoke with management to hear further details first-hand and encourage better practice. The company disclosed that it had set aside RM50m for remediation and shared a third-party audit with us. We did not view the RM50m as sufficient, given the average fee paid, nor did we find the audit to be comprehensive. While we felt the company wanted to do right by its workers, there was clearly a large discrepancy between Malaysian foreign worker standards and international expectations.

We spoke to management about our experience with the Indian Generic Pharma industry which had faced similar issues in the past, and had notably improved since then. We encouraged the company to have more extensive and unannounced auditing and further remediation.

At this point, we made a decision to sell the last of our shares based on both valuation and ESG concerns.

Nonetheless, we have since followed up with the company to ensure total remediation is carried out. We are pleased to confirm that an independent report has been submitted to the CBP. More importantly, the remediation fees have been revised up to RM136m, which we believe will be sufficient to cover all 11,000 workers. Lastly, the company has committed to working with the independent consultant to regularly assess the welfare of workers. We welcome the positive steps being implemented by the company to take care of its workers.

All company information referenced has come from the Company Report unless otherwise stated

Part

3

Diversity and Workplace Health
The mentally healthy workplace

For many companies in which we invest, success relies on being able to attract and retain talent. Key to this is fostering a safe and inclusive workplace culture, and this includes a mentally healthy workplace.

A report by PriceWaterhouse Coopers estimates that ignoring mental health costs Australian businesses around AUD10.9 billion a year.[27]

Although awareness of mental health issues has increased in recent years, there is still a stigma attached to mental health, particularly in the workplace.

The pandemic has fundamentally changed the way employers think about the health of employees. Organisations were forced to make major decisions about how to protect the physical health of their people by sending them to work from home, while the challenging conditions of lockdown made mental health a key issue. In the UK the number of adults reported to be suffering symptoms of depression has almost doubled since the onset of the pandemic.[28]

Employers who had previously thought of workplace health in terms of 'lost time incident rates' have been prompted to consider physical and mental health more holistically. With employees feeling isolated, stressed and overwhelmed, employers have been challenged to take proactive steps to support the mental wellness of their people, as the case below demonstrates.

27. https://www.headsup.org.au/docs/default-source/default-document-library/research-by-pricewaterhouse-coopers.pdf?sfvrsn=3149534d_2

28. 19.2% in June 2020 from 9.7% in the period July 2019 to March 2020, https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/articles/coronavirusanddepressioninadultsgreatbritain/june2020#:~:text=Almost%20one%20in%20five%20adults,July%202019%20to%20March%202020

Case study

Direct Infrastructure

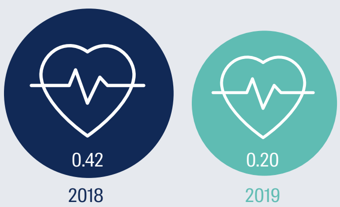
Mental health a crucial component of workplace health and safety

As direct owners of infrastructure assets, we have the ability to positively influence the operations of the worksites in our portfolio.

Improving the health and safety of employees has long been a priority: We strongly believe that safety and well-being in the workplace is fundamental to staff engagement, staff productivity and the overall resilience of a company.

We require all portfolio companies to implement a set of initiatives that address this issue. We track progress against these measures and our overall contribution to SDG Target 8.8 to provide safe and secure working environments for workers, as demonstrated by the decreasing trend of accident frequency in our decreasing trend of accident frequency in our fund's portfolio in recent years (below).[29]

Accident frequency rate per 100k hours worked



One of our portfolio companies, operates 12 bulk liquid storage and handling sites across Australia and New Zealand. Their operations involve movements of liquids to trucks and ships in order to bulk and debulk all types of liquid products, including flammable, corrosive or hazardous liquids for both import and export. Safe, reliable and efficient storage and handling services are critical for customers across these thousands of loading and unloading activities. However, COVID-19 made the company even more aware of the non-physical risks to employees.

For several years, the company had made time to stop work on RUOK? Day, a day where family, friends and coworkers are encouraged to ask each other about their mental health. This year, the meetings across all 12 sites focused on revisiting techniques learnt in prior years, as well as equipping staff with tools to use for the next step is in the conversation. The session talked about what to do if the answer to RUOK? is 'no' and provided skills and confidence to go further into the conversation.

The General Manager of Health Safety Environment (HSE) delivered a comprehensive presentation across all of the company's sites and generated high engagement. With the many employees working from home during the year, attendees commented on isolation / loneliness contributing to the mental health of individuals. Having the RUOK? Day sessions and other HSE toolbox meetings provided a healthy refresher of the resources available to all the company's employees and families, such as the Employee Assistance Program, helplines and colleagues.

29. All charts and figures exclude divested assets. Portfolio companies are only included in historical statistics from the year that they were acquired. All companies are reported on a 100% basis. No weighting has been applied for ownership stake. Figures for each year are calculated as the average of the accident frequency rate per 100,000 hours worked (AFR) for all portfolio companies.

Gender Diversity: ‘Slow and Steady’ not good enough

Diversity was a key theme in 2020. The Black Lives Matter movement brought race to the fore, with the U.S. protests seen replicated in other countries to highlight the issue of systemic racism.

First Sentier Investors believes that representation matters in business and that diversity goes beyond gender, with factors such as race, religion, socioeconomic background, sexuality and disability being of equal importance. A diverse workplace fosters an environment of informed decisions and stakeholder engagement.

At this stage, gender diversity is the area where we have made the most progress. We are working to improve female representation within the firm, as well as engaging with companies about their number of women in leadership roles. We have particularly focused on how we can contribute to SDG 5.5 and ensure women’s full and effective participation in leadership at all levels of decision-making in the companies in which we invest.

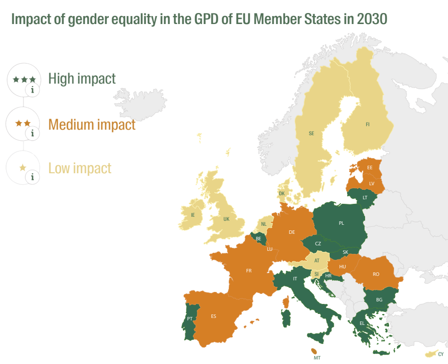
This is a business issue as well as an ethical one. Research released in June 2020 by the Workplace Gender Equality Agency and the Bankwest Curtin Economics Centre shows an increase in the share of female ‘top-tier’ managers by 10% points or more led to a 6.6% increase in the market value of Australian ASX-listed companies, worth the equivalent of A$104.7 million.[30]

However, the progress is slow. The number of women in leadership has flatlined, according to Chief Executive Women’s 2020 census on ASX200 senior executives, with just 30 ASX200 companies having at least 40% women in executive leadership in 2020.[31]

The EU has outlined the economic case for gender equality, arguing that it would boost GDP through higher employment and productivity. It estimates that by 2050, improving gender equality would lead to an increase in EU (GDP) per capita from 6.1 to 9.6%, which amounts to €1.95 to €3.15 trillion[32].

Compared with labour market and education policies, gender equality policies have a strong impact on GDP. For example, a recent study showed that improvements in educational attainment across EU Member States would lead to a 2.2% increase in EU GDP in 2050.[33]

Impact of gender equality in the GDP of EU member states in 2030



Source: European Institute for Gender Equality 2016

We believe that investors have a key role to play in setting expectations and engaging with companies on this issue.

During 2020, First Sentier Investors joined the 40:40 Vision initiative, with CEO Mark Steinberg joining the Steering Group. Convened by super fund HESTA, it is designed to increase the proportion of women in senior leadership across Australia’s largest listed companies to at least 40% by 2030. This is in addition to our membership of the 30% Club, which advocates for boards have 30% female representation.

Initiatives such as the 30% Club and 40:40 Vision are part of our firm’s commitment to responsible investment and creating positive change through company engagement.

Going forward, we would like to take the lessons we have learned through engaging on this important issue, and apply them to workplace diversity more broadly, as well as diversity outside the workplace. Whilst the same level of data and disclosure is not available for other forms of diversity, we expect that this will improve as awareness of this issue has increased throughout 2020. As investors we have an important role to play in driving better disclosure on material issues like this.

However, this engagement also plays a crucial role in the decisions made by our investment teams, as the case study below demonstrates.

30. https://www.wgea.gov.au/newsroom/media-releases/more-women-at-the-top-proves-better-for-business
31. Chief Executive Women ASX200 Senior Executive Census 2020 Report
32. https://eige.europa.eu/gender-mainstreaming/policy-areas/economic-and-financial-affairs/economic-benefits-gender-equality
33. Source: European Institute for Gender Equality 2016

Case study

Australian Equities, Growth

Gender diversity on boards: an analytical approach

A key component of the investment process employed by our team is our proprietary and dynamic ESG scoring system, which is applied to all companies under coverage. This added layer of input and discussion improves our analysts' financial modelling and influences their stock recommendation, both of which determine the portfolio's weight.

A key characteristic of our ESG scoring system is that each component (Environment, Social and Governance) is equal-weighted when determining a company's final score. Gender diversity and board independence are two of the quantitative inputs used in the Governance formula, as below.

Board Independence	Board Diversity
25%	25%
Remuneration Structure	**FSI Board Quality + Engagement score**
25%	25%

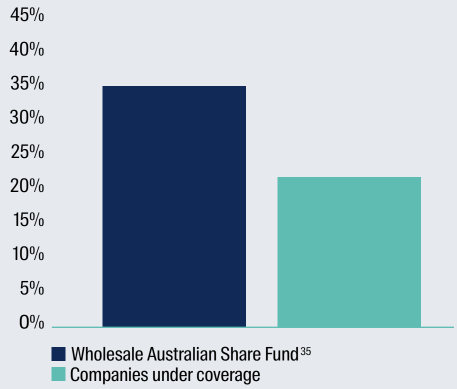
Source: First Sentier Investors

To achieve the maximum score for board diversity, female representation on a company's board must be between 40-70%. An upper limit is included to ensure boards hold equal representation of both genders.

Out of all the companies covered in our proprietary ESG scoring system, just under 22% have already achieved the 40% board diversity objective, with an increasing number making commitments to achieve this as soon as possible.[34]

Comparing our flagship Australian fund against the investment universe reinforces our stance on gender equality and highlights the progress made to date. Results from our scoring system show that the portfolio has a higher skew to companies with diverse management teams, as we believe they lead to improved decision-making and better outcomes for shareholders.

Percentage of companies with at least 40% gender representation



Source: First Sentier Investors

However, advocating for gender diversity isn't as simple as only investing in companies with acceptable board structures. Our policy on ESG is 'engagement ahead of exclusion', meaning we don't ignore companies and opportunities simply because they don't have the perfect board structure. We are open-minded about investing in 'low scoring' companies, assuming our fundamental analyses indicate that an attractive investment opportunity exists and the company has a willingness to actively engage. Positive change will only occur through engagement.

34. First Sentier Investors

35. The Wholesale Australian Share Fund not available for investment by U.S. persons. Fund information is being provided as an example of First Sentier Investors' expertise in the strategy. Differences between fund-specific constraints or fees and those of a similarly managed mandate would affect performance results

Conclusion

While COVID-19 has created a whole new set of challenges for investors, companies and communities to deal with, it has also created opportunities.

With attention focused on environmentally and socially significant issues, including climate change, biodiversity, human rights, mental health and diversity, we now have a chance to redouble our efforts to create long lasting, sustainable positive change.

The work undertaken by the First Sentier RI Steering Group which led to the development of this paper has been an important step for us in identifying and understanding important areas where we can have meaningful influence and what outcomes we want that influence to yield. Our next steps include more systematically measuring the impact we are having so that we are better able to shape positive outcomes and measure progress towards the SDG targets outlined in this paper. In 2021 and beyond we intend to do the following to better measure progress:

- **Climate change:** develop more comprehensive climate reporting for use by our clients, investment teams, committees, and boards and to enable us to better measure and act on climate-related risks and opportunities.
- **Biodiversity:** conduct a risk mapping across our portfolios to identify the companies that are most exposed to biodiversity related risks and develop tools to support our investment teams to manage those risks.
- **Modern slavery:** continue to implement and refine the Modern Slavery Toolkit, including collecting the first year of qualitative and quantitative indicators in order to measure the effectiveness of our approach.
- **Workplace health and well-being:** develop a more holistic definition and measure of workplace health and wellbeing to complement traditional occupational health and safety metrics (such as lost time incident rates).
- **Diversity**: build out our own set of more universal diversity measures.

This will guide us in developing more targeted policies, principles and toolkits on these issues as we have done in relation to modern slavery already. As investors and stewards of our clients' capital, we continue to engage meaningfully with the companies in which we invest, and to work constructively and collaboratively with them to improve their ESG performance. We are also ensuring we 'walk the talk' within our own firm when it comes to environmental initiatives, diversity, mental health and modern slavery reporting.

Collaboration is one of our core values at FSI and we will continue to collaborate on and advocate for more action on these important initiatives. In order to create real world outcomes, we need more targeted action by investors and across society more broadly. As the decade progresses and the SDG deadline of 2030 looms closer, all stakeholders will need to play their role in shaping the post-pandemic recovery. We want the world to be an even better place than we found it at the dawn of the decade.

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