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NAVIGATING THE RESPONSIBLE INVESTMENT LANDSCAPE

Equity Trustees (EQT) is a leading provider of specialist advisory and investment management services to the for-purpose sector, directly responsible for managing investments on behalf of over 800 for for-purpose organisations. Our long-standing focus on this sector means we have developed investment strategies that are tailored and aligned to the specific objectives of this client base.

Through our long history and experience in working with these organisations, we know that alongside strong financial outcomes, many want to avoid social/environmental harm while also aligning their investment portfolios with their mission and values. We have seen strong growth in the number and type of responsible investment offerings available over the last few years which can make it a complicated space for investors to navigate.

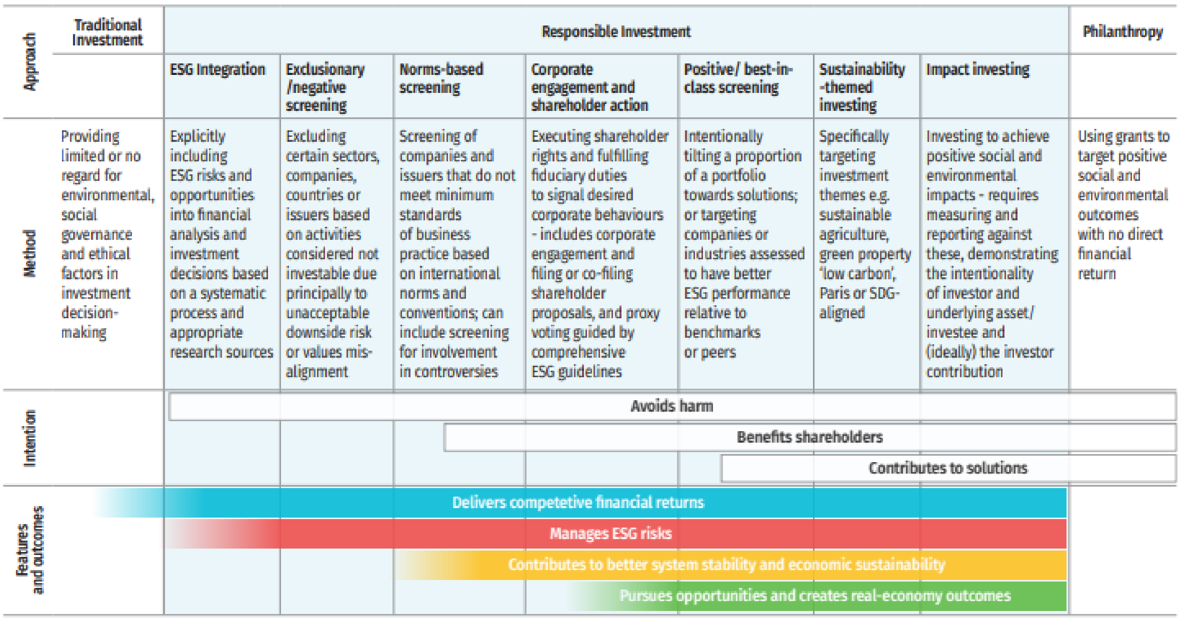
We have put together this guide to answer some of the common questions we get asked, and to assist investors in finding the right RI offering that aligns with their specific objectives.

Responsible Investing Defined

Responsible investing has origins dating back centuries when certain religions prohibited investment in ‘sinful’ industries (what we now call negative screening). We have seen significant momentum in responsible investing since the early 2000’s and the launch of the United Nations Principles for Responsible Investment (UNPRI) in 2006.

While negative screening is still common practice amongst for-purpose investors looking to avoid harm or avoid investments in industries that detract from their mission or purpose, RI principles have progressively matured as investment managers respond to demand from investors and test new approaches to achieve better real-world outcomes.

Diagram 1: The Responsible Investment Association Australia (RIAA) Responsible Investment Spectrum



Approach	Traditional Investment	Responsible Investment							Philanthropy
		ESG Integration	Exclusionary /negative screening	Norms-based screening	Corporate engagement and shareholder action	Positive/ best-in-class screening	Sustainability -themed investing	Impact investing	
Method	Providing limited or no regard for environmental, social governance and ethical factors in investment decision-making	Explicitly including ESG risks and opportunities into financial analysis and investment decisions based on a systematic process and appropriate research sources	Excluding certain sectors, companies, countries or issuers based on activities considered not investable due principally to unacceptable downside risk or values mis-alignment	Screening of companies and issuers that do not meet minimum standards of business practice based on international norms and conventions; can include screening for involvement in controversies	Executing shareholder rights and fulfilling fiduciary duties to signal desired corporate behaviours - includes corporate engagement and filing or co-filing shareholder proposals, and proxy voting guided by comprehensive ESG guidelines	Intentionally tilting a proportion of a portfolio towards solutions; or targeting companies or industries assessed to have better ESG performance relative to benchmarks or peers	Specifically targeting investment themes e.g. sustainable agriculture, green property 'low carbon', Paris or SDG-aligned	Investing to achieve positive social and environmental impacts - requires measuring and reporting against these, demonstrating the intentionality of investor and underlying asset/ investee and (ideally) the investor contribution	Using grants to target positive social and environmental outcomes with no direct financial return

*The spectrum has been adapted from frameworks developed by Bridges Fund Management, Sonen Capital and the Impact Management Project.

Source: RIAA

Pictured above is RIAA's 'Responsible Investment Spectrum' which defines the numerous approaches for implementing RI, often used in combination by Fund managers and reflected in the wide range of RI investment strategies being developed and available to investors.

Documenting what RI means to your organisation within the Investment Policy

Many for-purpose organisations will have specific values and ethical considerations that they would like reflected in their investment portfolios. These are typically documented in a separate section within the investment policy and communicated to investment managers.

When setting the organisations RI requirements, the board and investment committee should consider RIAA's RI spectrum (diagram 1) and think about their overall motivation for applying RI principles to their investment choices. It could be to 'avoid harm', 'benefit stakeholder', 'contribute to solutions', or all three. Some key points for the board and investment committee to consider when setting RI objectives are as follows:

- Which environmental, social or governance issues are most important to the organisation?
    - For example: Climate change, human rights, equality, or community impact.
- How do you want these values reflected in the portfolio?
    - For example, is it by avoiding investment in companies and sectors that have a negative impact on the community such as manufacturers of alcohol, tobacco, or gambling products/services.
    - Do you want to apply a revenue threshold to the business activities you have chosen to exclude? For example, the organisation will not invest in companies that generate more than 10% of revenue from these activities.

  - Or are there specific sectors or companies the organisation would like exposure to which align with the organisations mission or values?
- How do you expect investment managers to utilise proxy voting rights.
- How important is it that investment manager engage with companies on ESG issues.

The foundation of any sound investment policy begins with establishing clear objectives, and these most certainly include RI objectives. Documenting the organisations approach to RI will provide a framework for investment managers, and future board and investment committee members to ensure continuity of the organisations approach through changes within the organisation.

Assessing an investment managers approach to responsible investing

We have seen significant growth in the number and type of responsible investment offerings available to investors, with many labelled ‘Sustainable’, ‘Responsible’ or ‘ESG’ which can mean different things to different people. At face value, it can be challenging to assess how an investment manager is incorporating RI principles and whether the offering meets the organisations specific RI objectives.

We have put together a range of questions that may help to assess an investment managers RI approach and determine whether an offering aligns with your organisation’s goals.

- What reporting frameworks, or initiatives that promote responsible investment practices has the investment manager committed to?
  - For example, are they a signatory to the UNPRI, or member of RIAA?
- Which RI approaches outlined in diagram 1 does the investment manager apply to the fund and how are they applied?
- If impact investments are being assessed, there are several factors to consider including:
  - Whether the investment manager is targeting concessionary or market-rate financial returns?
  - Whether the fund has liquidity constraints or a lock up period?
  - The level of income targeted?
  - What are the target impact areas?
- What is their position on engagement versus divestment?
- Does the investment manager report transparently on its RI activities and are the reports easily accessible? For example:
  - Is the Funds full voting record available online?
  - Do they report on engagement activities and objectives?
  - Can they share examples of their engagement activities?

The answers to these questions should help you distinguish an investment manager’s commitment to responsible investing, the quality of their approach and alignment with your organisation’s RI objectives.

Ongoing monitoring and evaluation

Once the investment committee or board have selected an investment manager, it is important to have a structured review process in place (at least annually) to ensure compliance with your RI policy and objectives. A formal review process will provide the opportunity to sit down with the investment manager to discuss:

- Compliance with positive/negative screens.
- Responsiveness to material ESG risks and opportunities identified within the portfolio.
- Examples how RI principles are being applied such as engagement and proxy voting.
- New developments in the responsible investing landscape.
- RI reporting and whether it meets the organisations requirements.

Structured reviews are essential to gain a deeper insight into how RI principles are being applied. It is also an opportunity for the organisation to review their own investment policy to ensure their RI requirements are sufficiently documented and remain aligned with the organisations mission and values as these can change over time as the organisation and RI landscape evolve.

Equity Trustees' Approach

Responsible investing principles have long been a fundamental part of our investment research processes. We recognise that robust RI practices can lead to positive financial and social outcomes, assisting to manage risk and improve investment returns.

The Equity Trustees Responsible Investment Policy demonstrates our approach and consideration of RI in the investment management process. We are dedicated to preserving and growing our client's wealth, while ensuring the way we direct capital is aligned with the values of our clients and where possible, progressing positive economic, environmental, and social outcomes.

Our approach has been developed over time in line with the evolution in the RI landscape and objectives of our client base. We manage two responsible investing specific offerings including the EQT Responsible Investment Australian Share Fund and EQT Responsible Investment Global Share Fund which have both received RIAA certification. The certification further demonstrates our continued focus and our prudent responsible investment framework which we have in place.

Aligning an investment portfolio with an organisations mission and values have can be difficult to navigate, particularly when there are a wide variety of options available, and the responsible investing landscape is evolving at pace. We hope this guide will assist in defining what RI means to your organisation, help find the right offering that aligns with your specific objectives and ensure ongoing suitability for your organisation.

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