

Australian Standfirst's Responsible Investing Optimisation

Methodology, Implementation & Accountability

Thylacine: "Tasmanian Tiger"
Human Caused Extinction, 7 September 1936



**S&P Dow Jones
Indices**
A Division of **S&P Global**

 **Dow Jones
Sustainability
Indices**
20th Anniversary
In collaboration with SAM

australianstandfirst.com



“The main tip is to have a very clear vision of what it is your portfolio is trying to achieve before you start to invest. Responsible investing begins and ends with you.”

**Dr Michael McKenzie 1968 – 2015,
Australian Standfirst Academic Council
Posthumous Patron**



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Understanding Responsible Investing Optimisation In Three Easy Steps

ONE

References to Responsible Investing ("RI"), have until now remained highly subjective, unenforceable and nebulous – they have also been non-binding and have no moral or legal defining criteria or groundings.

RI has been viewed as the practice of investing that intends to have positive Environment, Social or Governance ("ESG") impact, even though investors should keep in mind that they remain investments, which are exposed to all the stereotypical opportunities and risks that confront any other investment categorisation.

This vague and unbinding practice is commonly referred to as a "Responsible Investing Policy" by fund and wealth managers, despite the fact a 'policy' is only a set of ideas or intentions.

TWO

Recognising this, Australian Standfirst redesigns Responsible Investing by deploying an Optimisation protocol across three very different but important stages:

- i. **Framework Optimisation** (See Page 5)
- ii. **Core Optimisation** (See Page 5)
- iii. **Tail Optimisation** (See Page 6)

THREE

Once deployed, the RI Optimisation protocol retains a practical approach to RI, whilst accepting that elevated ESG ideals today are no longer niceties but are imperatives for all of us from now on.

Australian Standfirst is the first active fund manager to integrate ESG into our benchmark, which will publicly hold us to account and elevate ESG as an enforceable performance requirement: **Announcing the S&P Global LargeMidCap Ex-Australia and New Zealand ESG and Green Bond TR 70/30 Monthly Blend Index.**

The S&P Blend Index utilises an ESG scoring methodology, overseen by S&P DJI's governance group and calculated by **SAM, a unit of RobecoSAM**, recognised since 1995, as the preeminent global investment specialist focused exclusively on Sustainable Investing.

Furthermore, RI is optimised throughout our global macroeconomic top-to-bottom process and places RI equally alongside thoughtful due diligence, risk-first deep research and tactically proactive prescient investing.

It should be noted that smarter investing embraces sustainability and wherever one stands on global warming or climate change, everyone can agree that outmoded practices can be improved and that a shift towards better efficiencies, smarter sciences and more innovative norms are now the better way forward.

Your feedback and insights are always welcome and please email us at express.interest@australianstandfirst.com

To simplify your global investing and reconnect with what matters to you as a responsible investor, visit us at www.australianstandfirst.com



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Responsible Investing's Journey From Periphery To Core

After the economic downturn in 2008, many affluent families began to question how their investments were being managed, resulting in a growing interest in the concept of responsible investing, which was thought to be an enhanced way of preserving prosperity, bridging generational divides and creating greater cohesion for families around the continuity of their wealth, its impact and their legacy.

Whilst setting these impactful objectives, managing performance and implementing these newer practices, what perhaps became the most rewarding aspect of this transition was that the progress towards redesigning a family's investment process spurred collaborative dialogue between family members and this improved their

abilities to uncover risks and determine opportunities that mattered to them all.

It also has led to more comprehensive decision making for the future which ultimately depends on anticipating change and preparing for rare events; an increasingly difficult task when attempting to anticipate future technological, economic, social and environmental developments.

"What are key performance indicators. We always say to an organisation, you tell us what are the key performance indicators that you want to set for yourself that will tell you, that you are justifying the money that we're investing in you.", says Sam Lipski AM.



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Australian Standfirst Guests, Sam Lipski AM (CEO Pratt Foundation) and Andrew Main (Journalist) discuss Australian foundational investments.

Redesigning Responsible Investing Optimisation

Australian Standfirst at its core holds a total commitment to responsible investing and in so doing has developed a proprietary, innovative and better approach to optimising global investment returns which also enhances accuracy across all risk management activities, while achieving a more genuine alignment with evolving ethical, environmental and societal standards.

Issues change but collective morality remains constant which means that consistent optimisation can only be achieved by identifying what is right opposed to what is new or on trend.

Subsequently, everything that we do at Australian Standfirst is with high purpose and our proprietary approach does not require the use of specialised products, therefore making our approach quite simple to apply.

This particular method also delivers an elevated degree of accuracy from the onset of every decision taken.

This is ostensibly because our proprietary approach to responsible investing always begins at the very top of our global macroeconomic framework, ensuring subsequent steps taken reflect our principles and our original houseviews about the world around us: while there is certainly wisdom in crowds, the consensus is not always correct.

This broader consensus is best explained by French Sociologist, Camille Pecastaing, who identified that human societies are powerful moral machines that need to be fed demons to eradicate.

It is then, unsurprisingly, that contemporary applications of responsible investing by incumbent active fund managers, buy-



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side and sell-side analysts, rely upon exclusionary rules or filters to eradicate these perceived demons.

However, this, in turn, taints the responsible investment decision process because these rules remain reactive and are often applied too late in the decision-making process – in common law this is equivalent to relying upon evidence that is considered fruit taken from a poisonous tree.

Reactionary and exclusionary controls remain important but they should not begin the determination and most certainly should never be considered optimisers.

This is then made evident by the onus of fund managers and analysts to place the burden of responsibility back onto the Corporates, Companies or Government Bodies being considered as recipients of invested capital and this has become popularised as Corporate Social Responsibility, or CSR, "Corporate Governance" or "Triple Bottom Line" procedures, which trivially conflate 'People', 'Our Planet' and 'Profits' into one specious catch-all.

These Corporate entities then, in turn, enact their own responsibility signalling by implementing the commendable but non-binding Environmental, Social and Governance, or ESG processes.

Much of corporate ESG reporting is not intended for investors but rather a wide

range of stakeholders, each with unique agendas, including customers, employees, regulators, NGO's, ESG 'raters' and the press, with investors often an afterthought.

One way to illustrate this is a look at companies' CSR or sustainability reporting, the principal source for ESG disclosures today; these are often vague corporate policies rather than measurable performances.

Although ESG remains instrumental to responsible investing success, it is a shortcoming of the incumbents' approach to screen for and defer ESG and related responsible investing decisions to the sectoral, asset class or company level – the decisions about what is or is not a responsible investment, falls squarely in the lap of those making the investment decisions, they being the active fund manager, advisor or analyst.

This also goes towards explaining why a vast majority of incumbent active fund managers propagate abstract, "Responsible Investment Policies", which are neither strategies nor optimisers.

We believe the potential benefits of ESG are underutilised by incumbents.

In our view, ESG integration offers a differentiated and additive complement to fundamental analysis, responsible decision making and longer-term investment success.

How Australian Standfirst Optimises Differently Than Others

The Australian Standfirst Responsible Investing Optimisation technique adds and maintains enduring value over three very different but important stages:

Framework Optimisation: The codified Australian Standfirst Family Principles are overlaid above our original houseviews, which then allows our **Due Diligence and Portfolio Management ("DDPM")** team to demonstrate our differentiation, depth and the fullness of our humanity across every investment decision taken.

This then allows us to identify long-term high-quality investment ideas with persistent high returns on capital, access to growth, a durable competitive advantage and engagement with key ESG issues.

Core Optimisation: At the instrument selection level – for instance, stock selection – Australian Standfirst is the first active global fund manager in Australia to integrated ESG into its official benchmark,

which will publicly hold us to account and elevate ESG as an enforceable performance requirement set out across all investment offer documents and binding undertakings.

By integrating ESG directly into our official benchmarks allows for greater perceptivity into intangible factors such as culture, operational excellence and risk that can improve or hinder investment outcomes.

ESG integration remains best placed with active managers who can leverage their strengths and domain expertise to fully assess companies' material risks and opportunities, especially when considering:

1. ESG factors impact security prices. These factors can vary by company, industry, and region and their importance can vary through time.
2. A deep understanding of how ESG factors impact security prices



is value-adding to a skilful investment process.

- 3. Embedding ESG considerations into a corporate culture and processes that improve the likelihood of prolonged and successful progress.
- 4. Active ownership of securities is an effective tool for improving investment outcomes.

Our combined framework and core responsible investing approach, provides us a strong basis for investing, advising, and building products that reflect our codified principles while meeting clients' goals, preferences and evolving circumstances.

Tail Optimisation: Our proprietary optimisation techniques allow for more rigorous back-testing, augmenting greater degrees of accuracy across all risk management activities while remaining in-step with our commitments to evolving responsible investing best practises.

ESG data that is often normalised to financial metrics can present skews from differences in business models and geographic location of operations, can expose investments differently to resource inputs, waste and emissions, safety, and diversity characteristics.

When constructing our portfolios, the process of determining the active asset class given these skews is informed by the insight we acquire from our framework and core optimisers.

Our **DDPM** teams then leverage this information to determine how optimally to achieve increased excess return potential across global market environments, while remaining steadfast to our ethical, environmental and societal commitments.

More broadly, we allocate active risks across asset classes based on where we believe we will likely have the most success in generating positive outperformance and risk control.

Framework Optimisation

Australian Standfirst simplifies global investing and empowers Australians by codifying founding responsible principles, which not only illuminate our investment decision processes but also highlights the limitations and potential pitfalls commonly seen when employing other scoring approaches that reward disclosure and maximise information inclusion, risk skewing portfolios and impairing performance.

We avoid potentially giving undue credit for robust public relations efforts or "greenwashing" and do not confine our research to company sponsored information or sell-side research, but rather seek out different viewpoints and garner insights from a variety of sources.

As the availability of foundational ESG data becomes more commonplace, we believe the next challenge is appropriately benchmarking to mitigate sector-specific idiosyncrasies that have the potential to mislead without deeper inquiry or an adjustment in approach.

Normalising ESG metrics to a company's revenue can lead to potential skews in cases of differing pricing or revenue models, while a company's reported environmental impact often depends largely on the extent to which it has outsourced production. Conclusions from ESG data points that are oversimplified or taken at face value can lead to incorrect conclusions or overlooked risks.

Framework Optimisation is an umbrella term used to describe a proprietary top-down approach to implementing our responsible investing methodology across non-financial, ethical and values-based investment and portfolio construction decisions.

Screening can either be positive (inclusionary) or negative (exclusionary). The social benefit may not be directly measurable. These values are reflected in the investment decision making process and criteria for selection, with positive screening sometimes referred to as a "best in class" approach.

Mobilising private capital to generate, not just economic value but also social and environmental value, represents the best strategy for Australia, given the profound societal challenges ahead and the ever-present need to modulate the amount of accepted risk.

A host of factors complicate evaluations of the relationship between ESG and financial performance, notwithstanding, our proprietary optimisation approach enhances estimates of the slope of the performance-frontier curve for any pair of ESG and financial variables by determining whether each incremental improvement in ESG performance causes a corresponding positive or negative change in financial results, or is in fact immaterial.

Constructing an in-house high impact



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proprietary optimiser, which overlays our original houseviews allows the **DDPM** team to consider and include sectors that often face the most difficult challenges in attracting capital: agriculture, education, access to finance, housing for the poor, small and medium enterprise finance, healthcare, renewable energy, water, and sanitation.

These investments have an explicit and inherent intent at genesis to address environmental or social issues, as well as a business model with a structure dedicated to achieving both impact and financial returns.

The framework's top-down methodology remains attuned to disposal and risk factors, which include but are not limited to, difficulty exiting high impact investments

and mitigating the potential of mission drift, though impact is embedded in the businesses being vested, which provides a natural protection for the impact mission.

Setting impact objectives and managing performance toward those objectives is a core element of our proprietary approach to optimising global investment returns which also enhances accuracy across all risk management activities.

"If you're looking at medical research, it is fairly straight forward to measure if that investment has been successful or not, in particular for us it's about translational research and whether that research will lead to change in practices and then better patient outcomes.", says Vedran Drakulic OAM.



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Australian Standfirst guests, Vedran Drakulic OAM (CEO, Gandel Philanthropy) and Geoff Harris (Harris Capital) discussing Australian Impact Investing.

Core Optimisation

The Global Core Fund Series

The Australian Standfirst Global Core Fund Series, honours the familiar touchpoints of original and thoughtful investment management, supported by an established leadership position, persistent track record and dedicated commitment to Australian Ultra High Net Worth (UHNW) and Philanthropic wealth management solutions.

The following blend index criteria are implemented for benchmarking and best practises purposes and please note the Global Core Fund Series may invest outside of these reference benchmarks.

Australian Standfirst Asset Management has entered into a licensing agreement with S&P Dow Jones Indices ("S&P DJI") and selected the global index provider's **S&P Global LargeMidCap Ex-Australia and New Zealand ESG TR and S&P Green Bond AUD TR 70/30 Monthly Blend Index** as a core benchmarking tool, making it the first active fund manager in Australia to utilise this set of indices and the only manager to have integrated ESG into its official benchmarks, which will publicly hold Australian Standfirst to account and elevate ESG as an enforceable performance requirement.

"The integration of ESG values across investment decisions should no longer remain exclusive to philanthropic, impact or specialist asset managers and must become, business as usual, for all Australians", said Innes Willox, Chairman of Australian Standfirst. "Recognising that our key strengths are to simplify global investing and to elevate funds management for Australians, it is obvious to us that it is not only a distinction but a commercial requirement that we now sit ESG Integration alongside the equally important drivers of risk management and investment returns."

S&P DJI recently launched ESG versions of its widely tracked global mainstream equity indices including the S&P Global LargeMidCap Ex Australia and New Zealand Index.

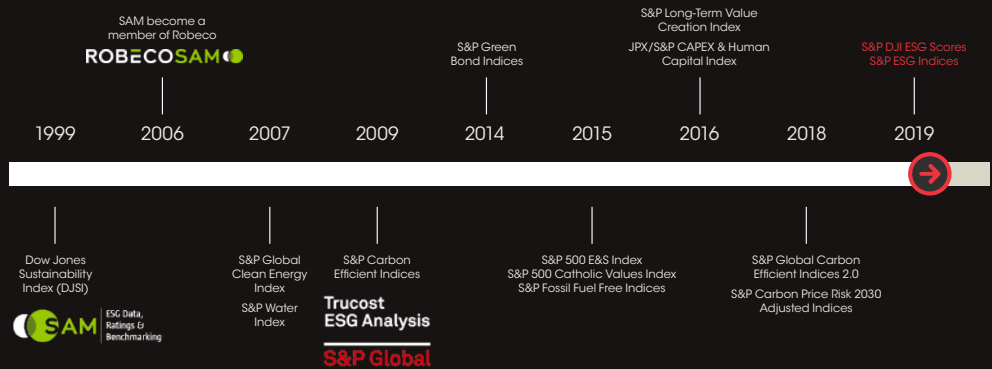
The ESG version of the index is designed to replicate the risk and return profile of its parent.

The S&P ESG Indices utilise an ESG scoring methodology, overseen by S&P DJI's governance group and calculated by SAM, a unit of RobecoSAM, recognised since 1995, as the preeminent global investment specialist focused exclusively on Sustainable Investing.



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S&P Dow Jones Indices ESG Indices Milestones



"We're very proud of the thorough research and analytical rigor applied to the design of this family of core regional and country ESG indices," said Reid Steadman, S&P DJI's Global Head of ESG Indices, "While ESG has long been of great interest to investors, market participants are becoming increasingly sophisticated in integrating ESG factors into their investments. Through our collaboration with SAM, we've developed an enhanced ESG scoring methodology that is purposely built for integration in our indices."

For more on the research and methodology on the S&P Global LargeMidCap Ex-Australia and New Zealand ESG and Green Bond TR 70/30 Monthly Blend Index and S&P DJI ESG Scores please visit: www.au.spindices.com/index-family/esg/overview

The S&P ESG Indices are designed to be broad-based, market capitalisation-weighted indices which measure the performance of securities meeting sustainability criteria, while maintaining similar overall industry group weights as their underlying indices.

The indices target 75% of the float market capitalisation of each GICS Industry Group within the relevant underlying index, using an ESG score as the defining characteristic.

The indices use a transparent, rules-based, constituent selection process based on companies' ESG score resulting from SAM's (formerly RobecoSAM) 'Corporate Sustainability Assessment' (CSA).

A company's ESG score may either be calculated from data received directly by a company completing the comprehensive assessment (together with supporting documents), or - in the absence of this - by using publicly available information.

SAM uses the CSA results to then calculate

the S&P DJI ESG Scores that are used in the index methodology.

Additional information on the CSA process is available at www.sustainability-indices.com.

For the purposes of ESG assessment, companies are assigned to industries defined by SAM and the assessment is largely specific to each industry.

SAM uses the Global Industry Classification Standard (GICS®) as its starting point for determining industry classification.

At the industry group and sector levels, the SAM Industries match the standard GICS classifications, but some non-standard aggregations are done at the industry level.

The indices are generated and published under agreements between S&P Dow Jones Indices and SAM.

All publicly listed multiple share class lines are eligible for index inclusion, subject to meeting the eligibility criteria.

Equities Benchmark: S&P Global ex Australia and New Zealand LargeMidCap ESG Index

For all International Shares, Equity Indices and Sectoral Securities, the **S&P Global ex Australia and New Zealand LargeMidCap ESG Index** methodology applies.

Exclusions Based on Business Activities & United Nations Global Compact

As of each rebalancing reference date, companies with the following specific business activities, and/or companies with disqualifying United Nations Global Compact ("UNGC") scores, are excluded from the eligible universe:



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Tobacco:

- Sustainalytics data is used to identify companies that either directly, or via an ownership stake of 25% or more of another company:
 - Produce tobacco
 - Have tobacco sales accounting for greater than 10% of their revenue
 - Have tobacco-related products & services accounting for greater than 10% of their revenue

Controversial Weapons:

- Sustainalytics data is used to identify companies that either directly, or via an ownership stake of 25% or more of another company, are involved with:
 - Cluster weapons
 - Landmines (anti-personnel mines)
 - Biological or chemical weapons
 - Depleted uranium weapons
 - White phosphorus weapons
 - Nuclear weapons

Low UNGC Score:

- Arabesque's S-Ray™ universe is used to assess very poor performers in relation to the UN Global Compact Principles.
- The global S-Ray™ universe is ranked according to GC Score. All companies at or below the bottom 5% of the GC score universe globally is ineligible.
- The reference date for S-Ray™ GC scores is the last business day of March.

Sustainalytics is a global leader in sustainability research and analysis, serving investors and financial institutions around the world. Please refer to www.sustainalytics.com for more information.

UNGC information is provided by Arabesque. Arabesque S-Ray™ is a data tool created by Arabesque, a global asset management firm, which implements quantitative models and big data to arrive at a company UNGC score based on the normative principles of the United Nations Global Compact: Human Rights, Labor Rights, the Environment, and Anti-Corruption.

Please refer to www.arabesque.com/s-ray for more information.

Importantly, companies without Sustainalytics coverage or an Arabesque score are ineligible for index inclusion until they receive such coverage or score.

Exclusions Based on ESG Score

Companies with an S&P DJI ESG score that falls within the worst 25% of ESG scores from each global GICS Industry Group are excluded from the indices.

In addition, if a company does not have an S&P DJI ESG score, then it is excluded from the indices.

Controversies: Media and Stakeholder Analysis Overlay

In addition to the above, SAM uses RepRisk, a leading provider of business intelligence on environmental, social, and governance risks, for daily filtering, screening, and analysis of controversies related to companies within the indices.

In cases where risks are presented, SAM releases a Media and Stakeholder Analysis (MSA) which includes a range of issues such as economic crime and corruption, fraud, illegal commercial practices, human rights issues, labour disputes, workplace safety, catastrophic accidents, and environmental disasters.

The Index Committee will review constituents that have been flagged by SAM's MSA to evaluate the potential impact of controversial company activities on the composition of the indices. In the event that the Index Committee decides to remove a company in question, that company would not be eligible for re-entry into the index for one full calendar year, beginning with the subsequent rebalancing.

For more information on RepRisk, please refer to www.reprisk.com. This service is not considered a direct contribution to the index construction process.



S&P Global LargeMidCap Ex-Australia and New Zealand ESG Index

Constituent Selection

The selection of index constituents from the Eligible Universe is done as follows:

1. For each GICS Industry Group, companies are selected in decreasing order of S&P DJI ESG Score until 65% of the Eligible Universe's float-adjusted market capitalisation ("FMC") is reached.
2. For each GICS Industry Group, existing constituents ranked between 65% and 85% are selected to get as close as possible to the target 75% of FMC.

3. If the combined FMC of selected companies is not above the 75% FMC target, companies not already selected from the Eligible Universe may be added in decreasing order of S&P DJI ESG Score to get as close as possible to the 75% FMC target. This process ends when the addition of the next eligible company would result in the total FMC of the relevant GICS Industry Group moving further away from the 75% FMC target.

Exhibit 1: S&P Global LargeMidCap Ex-Australia and New Zealand ESG Index

Objective: To target 75% of the market capitalisation within each GICS industry group of the S&P Index, using the S&P DJI ESG Score

STEP 1:

Exclude companies involved in tobacco or controversial weapons, or with a low UNGC score.

STEP 2:

Exclude companies with S&P DJI ESG Scores in the bottom 25% of their GICS industry group globally.

STEP 3:

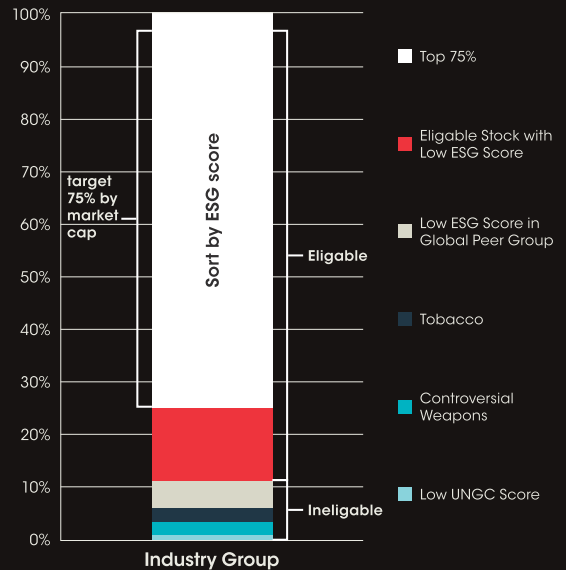
Within the S&P Index, sort the remaining companies by their S&P DJI ESG Scores within each GICS industry group.

STEP 4:

Starting from the company with the highest S&P DJI ESG Score, select companies for inclusion from the top down, targeting 75% of the GICS industry group.

STEP 5:

Weigh companies by float-adjusted market capitalisation.



Source: S&P Dow Jones Indices LLC. Chart is provided for illustrative purposes only.

Constituent Weighting

Index constituents are weighted by float-adjusted market capitalisation.

Index Calculations

The indices are calculated by means of the divisor methodology used in all S&P Dow Jones Indices' equity indices.



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Index Maintenance

Rebalancing

The indices rebalance annually, effective after the close of the last business day of April.

The rebalancing reference date is the last trading day of March.

The reference universe for the indices is the composition of the underlying index, or component indices, at the open of the upcoming rebalancing effective date.

Ongoing Maintenance

Index constituents are drawn from the underlying index or component indices.

Specific changes to index constituents, such as share changes, Investable Weight Factor (IWF) changes, dividend distributions, and price adjustments, follow the policies of the underlying index.

The indices are reviewed on an ongoing basis to account for corporate events such as mergers, takeovers, delistings, suspensions, spin-offs/demergers, or bankruptcies.

Changes to index composition and related weight adjustments are made as soon as they are effective. These changes are typically announced prior to the implementation date.

Index Governance

Index Committee

The S&P ESG Indices are managed by S&P Dow Jones Indices' Europe (EMEA) Index Committee.

The Index Committee meets regularly. At each meeting, the Index Committee reviews pending corporate actions that may affect index constituents, statistics comparing the composition of the index to the market, companies that are being considered as candidates for addition to the index, and any significant market events. In addition, the Index Committee may revise index policy covering rules for selecting companies, treatment of dividends, share counts or other matters.

S&P Dow Jones Indices considers information about changes to its indices and related matters to be potentially market moving and material. Therefore, all Index

Quarterly Updates

Changes to a constituent's shares and IWF as a result of the quarterly updates are effective after the close on the third Friday in March, June, September, and December.

Additions and Deletions

[Additions] Except for spin-offs, no stocks are added to the indices between rebalancings. Spinoffs are added to all indices where the parent security is a constituent at a zero price at the market close of the day before the ex-date (with no divisor adjustment) and are removed after at least one day of regular way trading (with a divisor adjustment).

[Deletions] If a stock is dropped from an underlying index, it is also removed from the respective index simultaneously. Between rebalancings, a stock can be deleted from an index due to corporate events such as mergers, takeovers, delistings, suspensions, spin-offs/demergers, or bankruptcies.

In addition, at the discretion of the Index Committee, a deletion may occur if an MSA is raised.

Corporate Actions

For more information on Corporate Actions, please refer to the S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology.

Committee discussions are confidential.

S&P Dow Jones Indices' Index Committees reserve the right to make exceptions when applying the

methodology if the need arises. In any scenario where the treatment differs from the general rules stated in this document or supplemental documents, clients will receive sufficient notice, whenever possible.

In addition to the daily governance of indices and maintenance of index methodologies, at least once

within any 12-month period, the Index Committee reviews the methodology to ensure the indices continue to achieve the stated objectives, and that the data and methodology remain effective. In certain instances, S&P Dow Jones Indices may publish a consultation inviting comments from external parties.



Fixed Income Benchmark: S&P Green Bond AUD Total Return [TR] Index

For all Fixed Income, Credit, Commodities and direct Currencies, the S&P Green Bond AUD Total Return [TR] Index methodology applies.

The S&P Green Bond index was developed collaboratively by S&P Dow Jones Indices and Infrastructure Credit Alpha Group LLC.

The index is a market value-weighted index designed to measure the performance of the green bond market.

The index methodology is maintained and the indices are calculated and managed independently by S&P Dow Jones Indices according to S&P Dow Jones Indices' standard policies and procedures, including the policies and procedures governing S&P Dow Jones Indices' independent Index Committee.

Supporting Documents

This methodology is meant to be read in conjunction with supporting documents providing greater detail with respect to the policies, procedures and calculations described herein.

References throughout the methodology direct the reader to the relevant supporting document for further information on a specific topic.

The list of the main supplemental documents for this methodology and the hyperlinks to those documents is as follows:

S&P Dow Jones Indices' Fixed Income Policies & Practices Methodology
[Download](#)

S&P Dow Jones Indices' Fixed Income Index Mathematics Methodology
[Download](#)

This methodology was created by S&P Dow Jones Indices to achieve the aforementioned objective of measuring the underlying interest of the index governed by this methodology document.

Any changes to or deviations from this methodology are made in the sole judgment and discretion of S&P Dow Jones Indices so that the index continues to achieve its objective.

Eligibility Factors

Unless otherwise noted all eligibility criteria apply to all indices. Eligibility factors specific to the sub-indices are listed on the following pages in the Sub-Index Rules section.

Country/Currency: Green bonds issued from any country and in any currency are eligible for index inclusion.

Green Flag: Bonds must be flagged as "green" by Climate Bonds Initiative (CBI)¹ to be eligible for index inclusion.

For a bond to be flagged green the issuer must clearly indicate the bond's "green" label and the rationale behind it, such as the intended use of proceeds.

CBI uses company disclosures to make the "green" determination.

Such disclosures must be made in sources that are credible and related to the company, and may include:

- Company's web site
- Public Filings
- Sustainability report
- Independent second opinions
- Legal disclosures

Maturity: Each bond must have a maturity greater than one month from the rebalancing date. No bond matures in the index.

Coupon Type: The following coupon types are eligible for index inclusion:

- Fixed
- Floaters
- Zero Coupon
- Fixed-to-Float
- Step-Up

Security Type: For USD and CAD denominated bonds which have multiple registrations, the 144a version will be eligible and the Reg-S will be excluded. For all other currency denominated bonds which have multiple registrations, the Reg-S will be included while the 144a will be excluded.

Settlement: Bonds issued up to the rebalancing reference date (regardless of the settlement date).

Standard index settlement convention is same-day (e.g. T+0), unless otherwise specified.

For month-ends that fall on a weekend, the interest accrued during the month will be reflected within the calendar month, regardless of settlement convention.

For rates that are not available at month-end (e.g. a rate with an unknown reset), the accrual will be based on the current rate and adjusted the first business day of the next month.



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Exclusions: The following bond types are specifically excluded from the indices:

- Bills
- Inflation-Linked
- STRIPS

For information on CBI's methodology, please refer to their website at www.climatebonds.net

S&P Green Bond AUD Total Return [TR] Index Construction

Index Calculations

The index is market value weighted.

Rebalancing

Indices are reviewed and rebalanced in

accordance with their stated schedule.

The Index Committee, nevertheless, reserves the right to make adjustments to an index at any time that it believes appropriate.

Additions, deletions and other changes to an index arising from the rebalancing are made provided the security's reference information and pricing are available by designated pricing and data providers on the rebalancing reference date.

Changes to an index are published on the announcement date and become effective on the rebalancing date.

Information related to the rebalancing is obtained and disseminated after the close of business.

| Rebalancing Schedule | |
|-----------------------|--|
| Rebalancing Frequency | Monthly |
| Rebalancing Date | Last day of the rebalancing period (T) |
| Announcement Date | T - 3 |
| Reference Date | T - 4 |

All days reflect after the close and count business days

Base Date and History Availability

Indices history availability, base dates and base values are:

| Index | Launch Date | First Value Date | Base Date | Base Value |
|----------------------|-------------|------------------|------------|------------|
| S&P Green Bond Index | 07/21/2014 | 11/28/2008 | 11/28/2008 | 100 |

Index Committee

S&P Dow Jones Indices' Fixed Income Index Committee maintains the indices.

All committee members are full-time professionals at S&P Dow Jones Indices. Meetings are held regularly.

The Index Committee oversees the management of the indices, including determinations of intra-rebalancing changes, maintenance and inclusion policies, and other matters affecting the maintenance and calculation of the indices.

In fulfilling its responsibilities, the Index Committee has full and complete discretion to (i) amend, apply, or exempt the application of index rules and policies as circumstances may require and (ii) add, remove, or by-pass any bond in determining the composition of the index.

The Index Committee may rely on any information or documentation submitted

to it or gathered by it that the Index Committee believes to be accurate.

The Index Committee reserves the right to reinterpret publicly available information and to make changes to the index based on a new interpretation of that information at its sole discretion.

All Index Committee discussions are confidential.

The Index Committee is separate from and independent of other analytical groups at S&P Global. In particular, the Index Committee has no access to or influence on decisions by S&P Global Ratings analysts.

S&P Dow Jones Indices' Index Committees reserve the right to make exceptions when applying the methodology if the need arises. In any scenario where the treatment differs from the general rules stated in this document or supplemental documents, clients will receive sufficient notice, whenever possible.



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In addition to the daily governance of indices and maintenance of index methodologies, at least once within any 12-month period, the Index Committee reviews the methodology to ensure the indices continue to achieve the stated objectives, and that the data and methodology remain effective. In certain instances, S&P Dow Jones Indices may publish a consultation inviting comments from external parties.

For information on Quality Assurance and Internal Reviews of Methodology, please refer to S&P Dow Jones Indices' Fixed Income Policies & Practices Methodology.

Announcements

Announcements of any relevant information pertaining to the indices are made after market close. Press releases are posted on the S&P Dow Jones Indices Web site at www.spdji.com.

Holiday Schedule

The indices are calculated on all business days of the year (Monday through Friday).

A complete holiday schedule for the year is available on S&P Dow Jones Indices' Web site at www.spdji.com.

Rebalancing

The Index Committee may change the date of a given rebalancing for reasons

including market holidays occurring on or around the scheduled rebalancing date. Any such change will be announced with proper advance notice where possible.

End-of-Day Calculation

Index levels are calculated at the end of each business day, via S&P Dow Jones Indices' Web site. This may be subject to change.

Index Releases

Releases are issued by S&P Dow Jones Indices at the end of the business day.

Recalculation Policy

For information on the recalculation policy please refer to S&P Dow Jones Indices' Fixed Income Policies & Practices document.

For information on Calculations and Pricing Disruptions, Expert Judgment and Data Hierarchy, please refer to S&P Dow Jones Indices' Fixed Income Policies & Practices Methodology.

Contact Information

For questions regarding an index, please contact: index_services@spglobal.com

For further information, please refer to S&P Dow Jones Indices' Web site at www.spdji.com.



Australian Standfirst Foundation Members, **Tabitha Lovett** and **Hamish Blake**, discussing Sustainability during the official opening of the purpose-built Infinity Black Digital Studio, homed at Australian Standfirst's Skunkworks headquarters. 8pm, 31 May 2018



Australian Standfirst

**Simplifying
Global Investing,
Elevating Funds
Management
and Empowering
Australians
with clear Financial
and Philanthropic
Education.**



EDUCATION



**FUNDS
MANAGEMENT**



PHILANTHROPY

Smarter Investing Embraces Sustainability

Sustainability presents a fundamental challenge to bringing analytical insight directly into the investment decision process because of deep uncertainties.

The question of assigning probabilities to future scenarios of Sustainability is particularly controversial but while many argue that scientific uncertainty about emissions simply does not allow us to derive reliable probability distributions for future climate states, others counter by saying that the lack of assigned probabilities gives non-experts free rein to assign their own, less well-informed probability estimates.

Sustainability research is plagued by imperfect and incomplete understanding about the functioning of natural (environmental) phenomena and processes, about how changes in these phenomena and processes translate into increases in important climate variables, such as precipitation, storm intensities, and global temperatures, and the economic and social consequences of such climatic changes.

Starting in the 1940's, environmental pollution in the US, the UK and Japan became increasingly acute and a number of highly influential pollution incidents occurred, including smog in Los Angeles in 1943 and London in 1952, Japan's Minamata disease outbreaks in 1953-1965, and the "itai-itai" disease related to a cadmium poisoning incident in Japan's Toyama prefecture (1955-1972). This series of incidents underlined that pollution had become an alarming

social problem for developed nations by the middle of the Twentieth Century.

In the 1960's and 1970's, developed countries became more aware of the hazards of environmental pollution and they worked to combat them when their per-capita GDP was about US\$5,000-US\$6,000.

Developed countries began to adopt measures when the first signs of environmental pollution appeared, for instance in the UK's 1876 Rivers Pollution Prevention Act and the American Rivers and Harbors Appropriation Act of 1899 in the US, but the effects were minor.

Following a series of major pollution incidents, these countries established dedicated environmental protection bodies and enacted a new series of environmental protection laws

In the 1960's and 1970's, developed countries began systematic environmental pollution mitigation by greatly increasing investment.

The history of pollution in developed economies such as the US, Japan and the UK suggests that severe pollution is curable.

"Every single one of us makes some impact on the world and we have a choice as to what kind of difference we want to make and it literally does not make sense to think we can have unlimited economic development on a planet with finite natural resources so if we carry on with business as usual, that's the end.", says Dame Jane Goodall.

"Every single one of us makes some impact on the world and we have a choice as to what kind of difference we want to make and it literally does not make sense to think we can have unlimited economic development on a planet with finite natural resources so if we carry on with business as usual, that's the end." said, Dame Jane Goodall DBE, 10 May 2019.

Australian Standfirst guests, Dame Jane Goodall DBE (UN Messenger of Peace) and Tabitha Lovett (CEO, Besen Family Foundation) discussing conservation, education, the environment.

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