MyNorth Sustainable Managed Portfolios

Annual investment and sustainability update
September 2024

For Advisers
and Investors

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News for investors and advisers

The MyNorth Sustainable portfolios are multi-manager, multi-asset portfolios designed to encourage positive social and environmental outcomes while achieving competitive investment returns.[1]

The portfolios are managed via a joint effort between the Perpetual multi-asset (asset allocation and portfolios construction) and AMP internal investment teams (manager selection and monitoring), and are available in three risk profiles: Balanced, Moderately Conservative and Moderately Aggressive.

This report provides a summary of changes we've made to improve the portfolios' investment and sustainability characteristics.

1 See **PDS** for further details on the portfolio objectives and definitions.

The changes we've made

Asset allocation

One of our goals in the 12 months till September 2024 has been to increase exposure to asset classes where our managers are able to exercise greater influence on companies to achieve more sustainable outcomes.

Consequently, in the September quarter 2024 we've reduced the weight of Alternatives asset class across all three risk profiles. For example, in the Balanced option, the allocation was cut by 8% and that weight was then equally distributed between Equities (4%) and Australian Fixed income (4%).

There's no change in the allocation of funds to Growth and Defensive assets as the risk profile of the existing alternative investments could be viewed as a hybrid of equities and fixed income. The home bias has increased slightly, due to higher weight to Australian Fixed income and the foreign exchange exposure has also gone up marginally.

Fund manager changes

As a result of the changes to asset allocation, the weight to both domestic and international equities increased by 2%. While the Australian equities manager mix has remained the same, we've made significant changes to the unhedged portion of the international equities sector.

See the table on page 4 for the final manager mix and their weights across all asset classes.

Table 1: Final manager weights

	New			Previous		
	Moderately Conservative	Balanced	Moderately Aggressive	Moderately Conservative	Balanced	Moderately Aggressive
Australian Shares	20.00%	29.00%	34.50%	18.00%	27.00%	33.0%
Alphinity	8.00%	11.00%	13.25%	7.00%	10.00%	12.50%
Ausbil Active Sustainable Equity	4.00%	7.00%	8.00%	4.00%	7.00%	8.00%
Pendal Horizon Sustainable	8.00%	11.00%	13.25%	7.00%	10.00%	12.50%
International Shares – Developed markets, Unhedged	20.50%	29.00%	35.00%	18.50%	27.00%	33.50%
Impax Sustainable Leaders	4.75%	6.50%	7.75%	7.50%	11.00%	14.00%
AXA IM Sustainable Equity	5.50%	8.00%	9.75%	0.00%	0.00%	0.00%
Janus Henderson Global Sustainable Equity Fund	4.75%	6.50%	7.75%	0.00%	0.00%	0.00%
Dimensional Global Sustainability Trust	5.50%	8.00%	9.75%	0.00%	0.00%	0.00%
Vanguard Ethically Conscious International Shares Unhedged	0.00%	0.00%	0.00%	11.00%	16.00%	19.50%
International Shares – Developed markets, Hedged	4.50%	7.00%	8.50%	4.50%	7.00%	8.50%
Vanguard Ethically Conscious International Shares Hedged	4.50%	7.00%	8.50%	4.50%	7.00%	8.50%
GREITS – Developed markets, Hedged	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Macquarie Global Listed Real Estate Fund	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Alternatives – Hedged	6.00%	6.00%	6.00%	14.00%	14.00%	12.00%
Pendal Multi Asset Target Return	6.00%	6.00%	6.00%	14.00%	14.00%	12.00%
Australian Fixed Interest – Composite	21.00%	12.00%	6.50%	17.00%	8.00%	3.50%
Pendal Sustainable Australian Fixed Interest Fund	21.00%	12.00%	6.50%	17.00%	8.00%	3.50%
International Fixed Interest – Aggressive, Hedged	19.00%	9.00%	3.50%	19.00%	9.00%	3.50%
Vanguard Ethically Conscious Global Aggregate Bond Index Fund (Hedged)	19.00%	9.00%	3.50%	19.00%	9.00%	3.50%
Cash	5.00%	4.00%	2.00%	5.00%	4.00%	2.00%
Macquarie Cash Fund	4.00%	3.00%	1.00%	4.00%	3.00%	1.00%
Cash Account (min 1%)	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Manager Fees New	0.67%	0.69%	0.71%	0.72%	0.76%	0.77%

In Table 1, you'll note we've divested the Vanguard Ethically Conscious International Shares Unhedged fund and reduced exposure to the Impax Sustainable Leaders fund. That weight has been re-allocated to three funds highlighted in the table above: AXA IM Sustainable Equity, Janus Henderson Global Sustainable Equity Fund and Dimensional Global Sustainability Trust.

Each of these funds has been carefully considered to align with MyNorth portfolios' sustainability principles and objectives. They also bring specific investment traits to the portfolio (either style or cap bias), thus increasing the overall diversification.

You'll also note that management fees are now lower for all options leading to the reduction in the total cost charged to clients.

Table 2: A snapshot of the unhedged international equities sector[1]

New – International Equities	Style Bias	Market Cap Bias	Sustainability/ ESG approach
Impax Sustainable Leaders	Growth	Smaller	Invests in companies providing environmental solutions and net carbon reduction.
AXA IM Sustainable Equity	Core	Core	One of the objectives of the fund is to target improved ESG metrics and lower carbon intensity than the benchmark.
Janus Henderson Global Sustainable Equity Fund	Growth	Smaller	The aim is to maintain a carbon footprint and carbon intensity that is at least 20% below the benchmark.
Dimensional Global Sustainability Trust	Value/Core	Smaller	Aims for a material reduction in carbon footprint exposure (accounting for both emissions in the air and from potential reserves) vs the benchmark; in addition to other sustainability considerations.
Vanguard Ethically Conscious International Shares Unhedged	Core	Core	Excludes companies that have a specified level of business involvement in certain activities and/or are involved controversial conduct.

All funds above have been certified as a responsible investment RIAA (Responsible Investment Association of Australia).[2] In addition to the ESG/sustainability approach highlighted above, the funds' investment objectives have been also considered.

Measuring against our sustainability objectives

Here's an outline of the progress against our overall sustainability principles and objectives.

Objective 1: The transition to a low-carbon environment

A carbon footprint is the total quantity of greenhouse gas produced to support a company's activities. Greenhouse gas emissions are commonly categorised by three types, as shown in the Appendix.

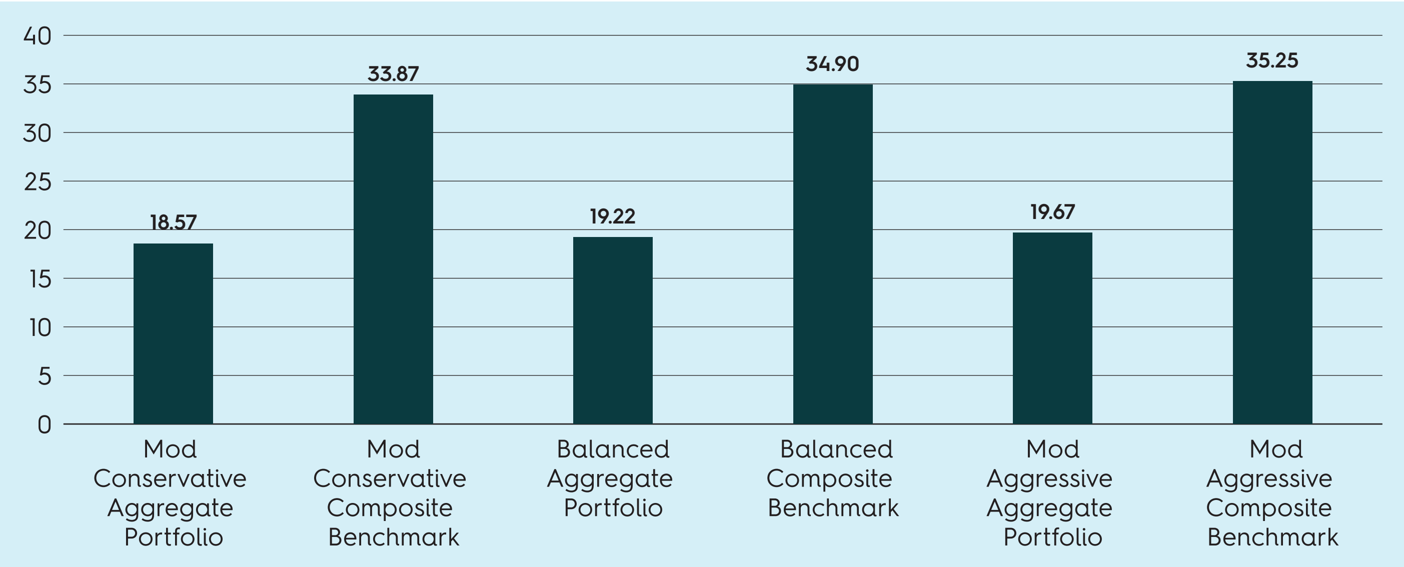
In considering the carbon footprint of investment options, we measure the scope 1 and 2 emissions of corporate issuers, expressed as kilograms of CO_2-e (carbon dioxide equivalent) produced per year, per thousand dollars ($AUD) invested into an investment option.

We also calculate the emissions of the benchmark which the investment option's financial performance is typically assessed against.

1 The information in the table above is accurate as of 30th of September 2024.
2 The investments have been certified by the Responsible Investment Association Australasia according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See **www.responsiblereturns.com.au** for details. The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

Below, we show the comparison between each of the MyNorth Sustainable Managed Portfolio's carbon footprint against the benchmark using a reputable third party data provider. The carbon footprint has been calculated only for corporate issuers (equities and fixed interest).

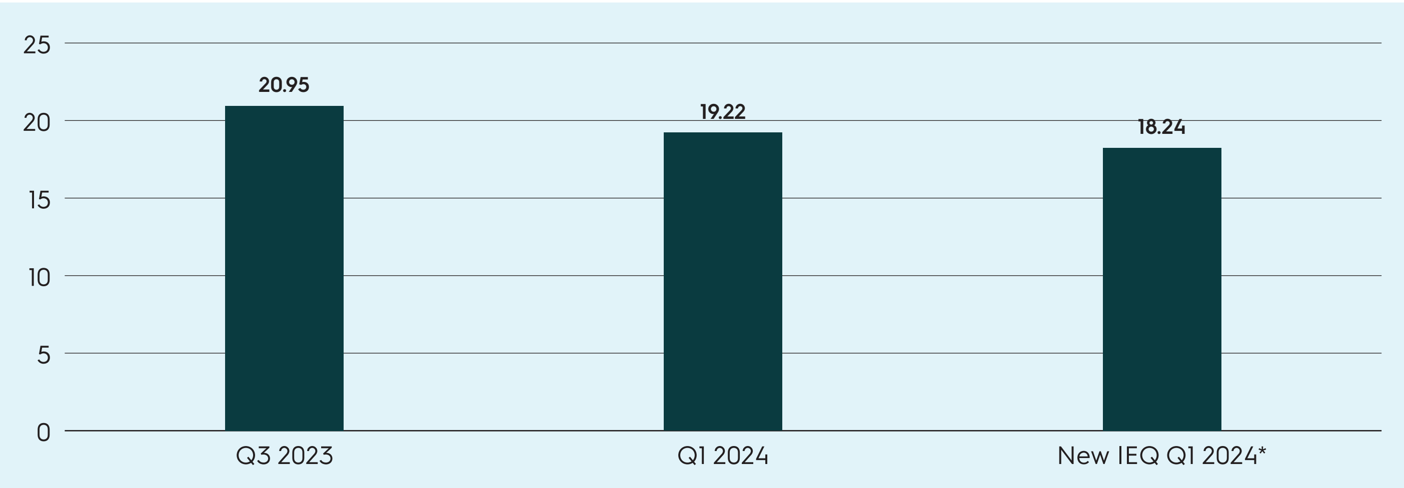
March Quarter 2024 – Relative Carbon Footprint (kgC0₂e/$1000 Invested)



As of Q1 2024, all three portfolios showed significantly lower relative carbon footprint vs their respective benchmark before the changes.

This measure has improved further after the changes to the International Equity sector previously explained. Specifically for the Balanced option, the relative carbon footprint declined from 19.22 to 18.24.

Relative Carbon Footprint (kgCO₂e/$1000 Invested) – Balanced option



* Q1 2024 (New IEQ – International Equity sector) includes the new managers (AXA IM, Dimensional and Janus Henderson). The figure was calculated using MyNorth Sustainable Balanced FUM as of Q1 2024 and the final manager weights taking effect in September 2024. Because of the implementation lag, the actual Relative Carbon Footprint figure may differ from the above.

Objective 2: Avoid material investment in industries which may cause harm

We've selected underlying funds which seek to restrict exposure to investments in the activities outlined below. While the exclusions are applied across each portfolio, the restriction scope may vary across the underlying fund holdings. Restrictions do not apply to cash, sovereign issuance, derivatives, structured instruments, ETFs and commodities. Due to both market movements and asset allocation changes the exposure to assets where restrictions do not apply will be dynamic and will vary across different portfolios.

Below is a high-level summary of exclusions. For detailed information regarding the restrictions including the scope of business activities which are covered by the exclusions and any limitations, please refer to the **PDS**.

Alcohol
Gross revenue from production >10%

Gambling
Gross revenue from production >10%

Tobacco
Gross revenue from production >0%

Pornography
Gross revenue from production >10%

Thermal coal mining
Gross revenue from production >10%

Controversial weapons
Any involvement in development and production

Nuclear weapons
Gross revenue from development, production and maintenance >0%

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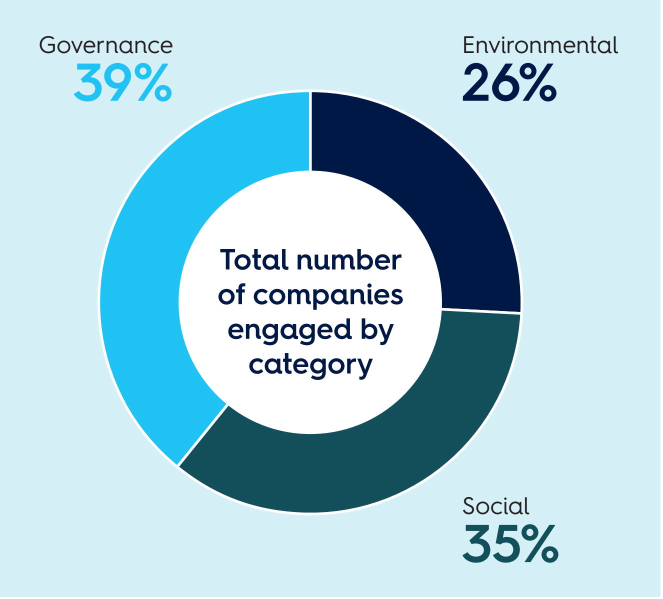
Objective 3: Encourage positive sustainable social and environmental outcomes

The majority of underlying equity managers in the MyNorth Sustainable portfolios exercise their role as shareholders in a company through voting at company meetings and engaging with management to positively influence the way the business operates.

As part of our process we collate the information on their voting and engagement actions.

In the year to June 2024, our managers voted on 1,981 resolutions, with the majority being in favour of management resolutions (1,215).

During the same period, the managers, conducted 404 engagements, broken down by ESG categories in the chart at right.



The largest number of company engagements took place in relation to governance, followed by social and environmental issues. In the environment category, the most significant issue where our underlying managers engaged with the companies is the company's climate transition strategy, including targets, alignment with capex expenditure and consideration of scope 3 emissions. In the social category, human capital (including diversity and inclusion) as well as human rights (including modern slavery) were the most prominent engagement topics.

Examples of engagement by our portfolio managers

CASE STUDY 1 – Advocating for greater transparency on decarbonisation

Challenge

The portfolio manager wanted to engage with an industrial gas and engineering company as part of the Institutional Investors Group on Climate Change (IIGCC) Net Zero Engagement initiative (NZEI).

Specifically, they sought to gain greater clarity on the company's net zero transition plan, including science-based target initiatives (SBTi), progress on scope 3 emissions management, the company's decarbonisation strategy, and related capital expenditure plans.

Action

An initial outreach letter on this specific topic was sent in March 2023, followed up by an engagement meeting in October 2023. As a result, the following points were clarified:

- The company has near-term emission targets but has not yet committed to a longer-term net zero target through SBTi, although it has a 'Climate Neutral 2050' goal.
- The group discussed progress on scope 3 reporting, given target coverage excludes scope 3 emissions. The company confirmed that scope 3 emissions are less than 40% of overall emissions and it is working with its major suppliers and customers to decarbonise and set their own science-based targets.
- All employee compensation is tied to emissions reduction.
- The company confirmed that it's making good progress against its goal for reducing carbon intensity by 35% by 2028.
- In terms of capital, it has a $3bn budget in the US to retrofit steam methane reformers and existing hydrogen facilities with carbon capture technology.

Outcome

The investor group encouraged the company to provide more detail on its longer-term decarbonisation strategy beyond current 2028 targets. The company intends to review its SBTi target (currently 2 degrees aligned) after publication of sector guidance in 2024. The portfolio manager plans to follow up with the company following publication of the sector guidance later in the year.

CASE STUDY 2 – Tracking emission targets

Challenge

A company operates aluminium smelters, which form a large part of their emission footprint. They've set themselves target dates for the smelters to be powered by renewable energy.

The portfolio manager met with the CEO during the March quarter of 2024 to understand how they were tracking against the target and the challenges they faced.

Action

The following points were confirmed:

- The company has set a target of 2030 to find a low-carbon solution for its Australian smelters.
- Its overseas smelters are powered by hydro-electricity and the company is looking for a similar solution for its smelter in Australia.
- The company has made some headway in 2024, signing power purchase agreements with solar and wind energy providers.
- The company highlighted issues it faces, such as finding sufficient land, engagement with traditional land owners and other regulations, as well as the limited 'firming' of the baseload for renewable energy.

Outcome

The company has an ambitious target which may be difficult to achieve given the time required to identify and plan solutions, gain approval and then develop them. It remains uncertain whether the 2030 timeframe can be met.

The 2030 timeframe remains an area of focus and continued engagement for the portfolio manager.

CASE STUDY 3 – Tackling the risk of deforestation

Challenge

An industrial company has a firmly-stated position to source 100% sustainable timber, and uses third party certification schemes such as the Forest Stewardship Council (FSC) to verify the sustainability of its timber suppliers.

Action

During a site visit to Indonesian palm oil plantations, the portfolio manager discovered that the FSC does not always conduct on-the-ground audits of certified plantations. This poses a significant risk to the company as the FSC certification may no longer be viewed as an appropriate program, particularly if issues are identified in plantations within their supply chains. While this issue is not an immediate risk to the investment case, the manager views this as a material longer-term risk to the business.

Outcome

The portfolio manager has engaged with the company three times in the past 12 months to discuss this issue. This engagement objective is ongoing. The company has initiated a review of its high-risk timber sourcing regions, with plans of using audits in the future. The company has also confirmed it has begun working more closely with the FSC to positively influence the program.

CASE STUDY 4 – A fairer outcome for workers

Challenge

A consumer discretionary company has a supplier in Malaysia. Allegations of forced labour were made against the supplier.

Action

In December 2023, the portfolio manager engaged directly with the company to understand the situation. The following was confirmed:

- With the help of an external law firm, the company is investigating the allegations and the supplier is cooperating with the investigation.
- The company has requested that any affected workers should be remediated should the allegations be true.

In March 2024, the portfolio manager followed up on this matter, and found:

- The company had spoken to workers to better understand the situation, and were speaking with the supplier to find a way to compensate the workers.
- The company had ensured all existing and future vendors have signed code-of-conduct agreements in place.
- On-site visits for auditing was expected to intensify.

Outcome

Following internal investigation, hearing and surveys, the company made the supplier pay compensation to the employees who were affected by unfair pay reduction and forced payment of recruitment agent fees.

APPENDIX: Definitions

Greenhouse gas: GHGs are gases that trap heat in the Earth's atmosphere and contribute to the greenhouse effect, which is the process by which the Earth's atmosphere warms up and maintains a liveable temperature. GHGs include carbon dioxide, methane, and nitrous oxide, among others.

Greenhouse gas emissions categories:

Scope 1 Emissions (Direct emissions)	Scope 2 Emissions (Indirect emissions)	Scope 3 Emissions (Broader indirect emissions)
These are greenhouse gas emissions released into the atmosphere from company-owned and controlled resources. Examples include: - emissions from the use of refrigerants in air conditioning units - emissions from fuels used in vehicles owned and controlled by an organisation - methane leaks from a coal mine - emissions released during industrial and manufacturing processes	These are greenhouse gas emissions released from the generation of energy which is purchased by the organisation. They are not produced directly by the company. For most organisations, electricity is the main contributor to their scope 2 emissions.	Scope 3 emissions are indirect emissions other than those defined as scope 2 emissions. They occur outside the boundary of an organisation but are as a result of its actions. Examples include: - Business travel emissions (air travel, rail, taxis, buses, etc) - Waste sent to landfills and wastewater treatments - Emissions created in the manufacturing of products that are purchased by a company (office furniture, machinery, vehicles, computers, etc)

Source: **Greenhouse Gas Protocol**

Please note the underlying managers may apply different standards to the above definitions.

Fund Carbon footprint: A calculation of the emissions attributed to a fund based on the emissions profile of the underlying investments. AMP Investments uses a measurement of kilograms of CO_2-e (carbon dioxide equivalent) produced per year per thousand dollars invested into a fund. The carbon footprint is representative of the equities and/or corporate fixed income portions of the funds. Detailed methodology is available on the North website.

Engagement: Employing shareholder power to influence corporate behaviour, including through direct corporate engagement (i.e. communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines. (Source: Responsible Investment Association of Australia (RIAA)).

Climate neutrality: Refers to the idea of achieving net zero greenhouse gas emissions by balancing those emissions so they are equal to, or less than, the emissions removed, as well as accounting for regional or local biogeophysical effects of human activities, such as changes in surface albedo or local climate. In basic terms, it means we reduce our emissions through climate action to ensure no net effect on the climate system. (Source: **A Beginner's Guide to Climate Neutrality I UNFCCC**)

Science based target initiative (SBTi): The SBTi is a global program that helps organisations set science-based targets for reducing their greenhouse gas emissions in line with the latest climate science and the Paris Agreement.

Net Zero emissions: Refers to achieving an overall balance between greenhouse gas emissions produced and greenhouse gas emissions taken out of the atmosphere (Source: Climate Council of Australia). Net Zero targets demonstrate how an entity is transitioning towards a Net Zero economy and committing to ambitious action on climate change.

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We're here to help

More detailed information on this product can be found in the relevant PDS. However, if you have questions or simply want to know more, don't hesitate to contact us.

Speak with your BDM

Request a call back

northonline.com.au/call-back

Contact North Service Centre

Email north@amp.com.au

Call 1800 667 841
(Mon-Fri, 8:30am – 7pm Sydney time)

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