

Socially Responsible Investment Option Approach

July 2025



Socially Responsible Investment Option

This document describes our investment approach for the Socially Responsible Investment (SRI) investment option (the SRI Option). The SRI Option adopts a set of unique criteria (SRI Criteria) which are applied when considering and managing investments.

The SRI Option has a financial-based investment objective to deliver investment returns through strategic asset allocation while employing an investment approach consistent with our SRI Criteria. The SRI Criteria, which we set out in detail below, include:

1. specific investment exclusions that the SRI Option seeks to avoid, or minimise exposure to, including investments that have the potential to cause or contribute to social harm, such as tobacco, alcohol, gambling, fossil fuels, weapons, nuclear power, and adult entertainment
2. specific environmental and social characteristics in investments that the SRI Option seeks to target, including investments that contribute to the betterment of society such as education, healthcare, and climate change solutions, and
3. specific practices adopted by Funds SA in manager selection and appointment based on their environmental, social and governance (ESG) investment management principles.

Investment approach and SRI Criteria

The SRI Option invests with external investment managers that are tasked with meeting our SRI Criteria. The particular SRI Criteria may vary between asset classes and investment managers.



Note: On occasion, there will be times where the SRI Option invests in pooled funds alongside other investors where we cannot prescribe the SRI Criteria. In these cases, we aim to select funds that remain consistent with the purpose of the SRI Option.









1. Investment exclusions

The SRI Option seeks to avoid investment in companies that have the potential to cause or contribute to social harm, which make them less desirable for investment within the SRI Option.

Note: Some revenue and product involvement (i.e., manufacturing, supply, and distribution) thresholds apply so that companies with multiple business activities are not ruled out for investment due to very low involvement in excluded industries or companies. However, we maintain low revenue thresholds so these activities can generally be avoided. Further, investment exclusions do not apply to derivatives that may have an indirect exposure to these types of companies.

Investment exclusions for the 'Australian Equities', 'International Equities' and 'Sub-Investment Grade (Sub-IG) Credit' asset classes

<p>Adult Entertainment</p> 	<p>Australian Equities, International Equities and Sub-IG Credit: All companies deriving 5% or more revenue from the production of adult entertainment materials.</p> <p>Australian Equities only: All companies deriving 5% or more aggregate revenue from the production, distribution and/or retail of adult entertainment.</p> <p>International Equities and Sub-IG Credit only: All companies deriving 15% or more aggregate revenue from the production, distribution and retail of adult entertainment materials.</p>	<p>Gambling</p> 	<p>Australian Equities, International Equities and Sub-IG Credit: All companies deriving 5% or more aggregate revenue, estimated or actual, from ownership or operation of gambling related facilities.</p> <p>Australian Equities only: All companies deriving 5% or more aggregate revenue from gambling-related business activities.</p> <p>International Equities and Sub-IG Credit only: All companies deriving 15% or more aggregate revenue, estimated or actual, from gambling-related business activities.</p>
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<p>Alcohol</p> 	<p>Australian Equities, International Equities and Sub-IG Credit: All companies deriving 5% or more revenue from the production of alcoholic products.</p> <p>Australian Equities only: All companies deriving 5% or more aggregate revenue from the production, distribution, retail, licensing and/or supply of alcoholic products.</p> <p>International Equities and Sub-IG Credit only: All companies deriving 15% or more aggregate revenue, estimated or actual, from the production, distribution, retail, licensing and supply of alcoholic products.</p>	<p>Nuclear Power</p> 	<p>Australian Equities: All companies that own or operate nuclear power plants, provide services or materials for nuclear power generation, or are involved indirectly through ownership ties to companies involved in such products or services.</p> <p>International Equities and Sub-IG Credit: All companies generating 5% or more of their total electricity from nuclear power in a given year.</p> <p>All companies that have 5% or more of installed capacity attributed to nuclear sources in a given fiscal year.</p> <p>All companies deriving 15% or more aggregate revenue from nuclear power activities</p>
<p>Genetically Modified Organisms (GMO)</p> 	<p>Australian and International Equities only: All companies deriving 5% or more revenue from genetic engineering-related business activities</p>	<p>Nutrition & Health</p> 	<p>Australian Equities only: All companies with an "Opportunities in Nutrition and Health Score Quartile" greater than 2 (i.e. 3rd and 4th quartile, with a value of 1 representing the top quartile and 4 representing the bottom quartile).</p>
<p>Tobacco</p> 	<p>Australian Equities, International Equities and Sub-IG Credit: All companies classified as a "Producer"</p> <p>All companies deriving 5% or more aggregate revenue from the production, distribution, retail, supply and licensing of tobacco-related products.</p>	<p>Animal Welfare</p> 	<p>Australian Equities only: All companies involved in commercial animal husbandry for the purpose of food production</p> <p>All companies that conduct animal testing for non-medical products.</p>
<p>Weapons</p> 	<p>Australian Equities, International Equities and Sub-IG Credit:</p> <p>(A) Controversial Weapons All companies with any tie to Controversial Weapons (cluster munitions, landmines, depleted uranium weapons, biological/chemical weapons, blinding lasers, nondetectable fragments and incendiary weapons).¹</p> <p>(B) Conventional Weapons All companies deriving 5% or more aggregate revenue from the production of conventional weapons; or</p> <p>All companies deriving 15% or more aggregate revenue from weapons systems, components, and support systems and services.</p> <p>(C) Civilian Firearms All companies that manufacture firearms and small-arms ammunitions for civilian markets. It does not include companies that cater to the military, government, and law enforcement markets; or</p> <p>All companies deriving 5% or more aggregate revenue, from the manufacturer and retail of civilian firearms and ammunition.</p> <p>(D) Nuclear Weapons Australian Equities and International Equities: All companies that manufacture nuclear warheads and/or whole nuclear missiles</p> <p>All companies that manufacture components that: were developed or are significantly modified for exclusive use in nuclear weapons (warheads and missiles)</p>	<p>Fossil Fuels</p> 	<p>Australian Equities: All companies with reserves or mining (or extraction), distribution or transport of fossil fuels (thermal coal, oil and gas), other oil and gas related revenues and fossil fuel-based power generation; or</p> <p>All companies with evidence of involvement in metallurgical coal distribution or storage.</p> <p>International Equities and Sub IG Credit: All companies with evidence of owning proven & probable coal reserves and/or proven oil and natural gas reserves regardless of their industries</p> <p>All companies with evidence of thermal coal distribution or transport involvement.²</p> <p>All companies deriving revenue from Arctic oil and gas production.</p> <p>All companies deriving any revenue from the mining of thermal coal³, and its sale to external parties or unconventional oil and gas extraction.⁴</p> <p>All companies deriving 5% or more revenue from thermal coal-based power generation.</p> <p>International Equities only: All companies deriving 50% or more aggregate revenue from the thermal-coal, liquid-fuel and natural gas-based power generation.</p> <p>All companies deriving 10% or more aggregate revenue from the distribution of oil and related products, the extraction and production of oil and natural liquids, pipelines of oil and oil products or natural gas liquids, the refining of oil fuels, the transportation of oil and oil</p>

¹ As defined by the methodology of the MSCI Global Ex-Controversial Weapons Indexes available at <https://www.msci.com/index-methodology>;

² This includes transport of thermal coal by road, rail, shipping or air, and physical trading of thermal coal. It does not include involvement in storage of thermal coal, or involvement in metallurgical coal-related activities.

³ Thermal Coal Mining: Revenue from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. It does not cover revenue from metallurgical coal; coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined thermal coal; and revenue from coal trading.

⁴ Unconventional Oil & Gas Extraction: Revenue from oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas, and coal bed methane. It does not cover all types of conventional oil and gas production including deep water, shallow water and other onshore/offshore.

	<p>All companies that manufacture components that were <u>not</u> developed or significantly modified for exclusive use in nuclear weapons (warheads and missiles) but have the capability to be used in both nuclear and conventional weapons.</p> <p>All companies that manufacture or assemble delivery platforms that: were developed or significantly modified for the exclusive delivery of nuclear weapons; or have the capability to deliver nuclear weapons</p> <p>All companies that provide auxiliary services related to nuclear weapons including (but not limited to) repairing and maintenance of nuclear weapons, stockpiling, testing and simulations</p> <p>All companies that manufacture components for nuclear-exclusive delivery platforms</p> <p>Sub-IG Credit only: All companies that have a direct or indirect industry tie to nuclear weapons (e.g. those listed above and those involved through ownership ties to companies involved in the aforementioned products or services)</p>		<p>products, drilling wells as a service to the exploration and production of oil and natural gas, and the exploration as a service to the oil and natural gas industries.</p> <p>All companies deriving 50% or more aggregate revenue from the distribution of gas and related products, the extraction and production of natural gas, natural gas pipelines, the processing of natural gas fuels, the transportation of natural gas, drilling wells as a service to the exploration and production of oil and gas and the exploration as a service to the oil and natural gas industries.</p> <p>Sub-IG Credit only: All companies deriving revenue from oil and gas related activities.⁵</p> <p>All companies deriving revenue from unconventional oil and gas.</p>
<p>Controversies</p> 	<p>Australian Equities and International Equities: MSCI ESG Controversies Overall Scores (ranging from 0 to 9, where 0 indicates very severe controversies and 9 indicates minor controversies) are used to identify companies involved in severe and very severe environmental, social, or governance-related controversies linked to their operations, products or services.</p> <p>Australian Equities only: Companies are required to have an MSCI ESG Controversies Score of 2 or above to be eligible for inclusion in the Index (indicating Red Flag [0] and Orange Flag [1] companies are excluded based on the MSCI ESG Controversies and Global Norms Methodology).</p> <p>Additionally, companies that are assessed as being involved in human rights controversies (those with a score less than 5) by the MSCI ESG Controversies score are excluded. Controversies considered include freedom of expression and censorship and other human rights abuses and adverse impacts on a community.</p> <p>Companies not assessed by MSCI ESG Research on MSCI ESG Controversies are not eligible for inclusion in the Index.</p> <p>International Equities only: Companies are required to have an MSCI ESG Controversies Score of 4 or above to be eligible for inclusion in the Index.</p> <p>Sub-IG Credit only: All companies with low governance rating (B or below) are excluded based on the relevant Sub-IG Credit investment manager's proprietary governance rating.</p>	<p>ESG Ratings</p> 	<p>Australian Equities and International Equities: MSCI ESG Ratings are used to identify companies that are more effective than their peers at managing ESG-related risks and opportunities. To be eligible for inclusion in the Indexes, companies must have an MSCI ESG Rating of 'A' or above. MSCI classifies companies as ESG Leaders (AAA and AA), ESG Average (A, BBB and BB) and ESG laggards (B and CCC).</p> <p>Sub-IG Credit only: Companies with an MSCI ESG Rating below 'BB-' are excluded. For companies without an MSCI ESG rating, the investment manager's proprietary ESG rating methodology is applied where available; those rated below 'BB-' are also excluded. Companies without an MSCI ESG rating or the manager's ESG rating are also excluded.</p>

2. Positive environmental and social characteristics

The SRI Option targets investments that contribute to solving large societal issues through the 'Infrastructure' and 'Private Markets' asset classes. Examples of the types of investments that we target within the SRI Option include:

⁵ excluding biofuel production and sales and oil and gas trading activities

- Infrastructure investments that support key community and social needs, including schools, TAFE, hospitals, correctional facilities, water treatment plants, and other social infrastructure sectors. The SRI Option also invests into renewable energy, such as wind and solar farms.
- Private Markets investments that focus on businesses that generate a clear, measurable and positive social and/or environmental impact including across the following key impact themes: climate action, inclusive growth and healthcare. This includes businesses providing healthcare for elderly and low-income populations, digital learning solutions, environmental regeneration, and mobile banking solutions in developing countries.

Note: Whilst we have not adopted a formal scale for measuring the social contribution of these assets, we align our investments with generally recognised socially responsible investing and ESG principles determined through our membership of industry bodies including the United Nations-supported Principles for Responsible Investment (UN PRI) and other sources.

3. Environmental, social, and governance (ESG) approach to investment management

(a) Investment manager selection and monitoring

We take what we call an 'ESG approach' in the selection of external investment managers for the SRI Option. That is, we identify investment managers that have deep expertise in ESG principles and can demonstrate the application of those principles to investment decisions and management. We survey the ESG approach of our investment managers when completing initial due diligence, and on an ongoing basis, to ensure that ESG processes are being maintained. We also incorporate ESG considerations into our routine monitoring activities.

(b) Best-in-class ESG approach to portfolio construction

Within the SRI Option, the best in-class ESG approach to portfolio construction means prioritising investment in companies that are considered to be at the top of their sector according to external ESG ratings. These include ratings provided by MSCI ESG Ratings LLC (who provides ESG ratings on a 7-point scale from 'AAA' (leader) to 'CCC' (laggard) (MSCI ESG Ratings)) or proprietary ratings provided by external investment managers (IM Ratings).

With the best-in-class ESG approach, our portfolio generally has increased allocations to best-in-class companies with strong ESG ratings, while reducing exposure to those with lower rating, following the initial screening process based on the SRI Criteria.

For the listed equities portfolio, companies with the highest ESG ratings ('AAA') are prioritised to fill target sector weights before considering those rated 'AA'. Companies must have an MSCI ESG Rating of 'A' or above to be eligible for investment inclusion. For International Equities, companies already in the SRI Option portfolio that experience a downgrade below an 'A' rating must maintain a minimum ESG rating of 'BB' to remain eligible in the portfolio.

In the SRI Option's 'Sub-Investment Grade Credit' portfolio, companies with an MSCI ESG Rating or IM Rating below 'BB-' as well as those that do not hold an MSCI ESG Rating or IM Rating are excluded.

Application of SRI Criteria to each asset class

The SRI Option invests in a diversified asset class mix. Due to the different types of assets within each asset class, the SRI Criteria are applied in different ways.

For example, investment exclusions focused on the business activities of a company may not apply to investments in 'Cash' and 'Property' assets. Comparatively, we are better able to implement investment exclusions in listed asset classes such as 'Australian Equities' and 'International Equities'.

How Funds SA's SRI Criteria are applied to each asset class:

Asset Class	ESG Approach to Manager Selection	SRI Criteria-Based Exclusions	Tilts toward High ESG Rating Companies	Investments with Environmental and/or Social Characteristics
Listed Equities	✓	✓	✓	
Private Markets	✓	✓		✓
Property	✓			
Core Infrastructure	✓	✓		✓
Sub-IG Credit	✓	✓	✓	
Fixed Interest	✓			
Cash	✓			

Investment stewardship

Investment stewardship is the responsible oversight and management of investments, and we consider this to be an important component of our approach to responsible investment. Our role as stewards includes a responsibility to take actions that protect and create long-term value for our clients. We do this through various means including proxy voting, engagement, and class actions.

- Proxy voting & engagement:** We directly exercise our shareholder voting rights over listed equities in the SRI Option with the support of a specialist proxy voting advisor. We employ a materiality approach that focuses on both financial materiality (i.e., the size of our holding) and degrees of influence (i.e., our percentage ownership of a company) in the companies in which we invest. Our guiding principle is to vote in the best financial interest of our clients. We may have opportunities to drive stewardship activities both independently and in collaboration with investment managers. While we do not usually engage directly with companies, we may undertake collaborative engagements where appropriate.
- Class Actions:** We have a class actions program. Participation in class actions is assessed on a case-by-case basis.

Funds SA Disclaimer

Please note that the information presented in this report is as at 30 June 2025. Allocations or the composition of particular asset classes and other investment information may change from time to time.

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