

Sustainable investing framework

We believe that environmental, social and governance (ESG) factors can have a material impact on client outcomes and should be integrated throughout the investment process. We expect long-term sustainability issues, particularly climate change, to present risks and opportunities that may require explicit considerations.

Our overarching aim with IMX is to help advisers deliver their clients' goals and achieve better value in doing so. Our approach to sustainable investing is consistent with this.

To achieve our aims, we employ a range of sustainable investing approaches. These include:

- **ESG integration** – Considered as part of asset allocation and manager selection.
- **Stewardship** – Voting, engagement and influencing by underlying fund managers.
- **Sustainability** – as well as financial measures of the risk and return, we assess sustainability measures to help us understand the sustainability characteristics of our portfolios.

We set out below how this is applied across our investment process.

1. Asset class consideration

In assessing asset classes to include in our portfolios, we consider the ESG characteristics of the asset class alongside its financial characteristics. This process includes the potential for asset classes to be constrained or excluded based on the ESG assessment.

2. Portfolio creation

Our portfolio creation process enables us to design a set of asset allocations most appropriate for a wide range of client goals. Our aim is to improve or maintain the achievement of client goals (i.e. no worse off) after the application of ESG considerations at the asset class level.

3. Asset class implementation

At this stage, we may consider restrictions, exclusions or other portfolio tilts to enhance the ESG characteristics of the asset class. We use sustainability measures (such as carbon metrics) to understand the impact of these adjustments that are not captured by pure financial metrics. The implications on overall asset class characteristics also needs to be understood, and we aim to maintain or improve the risk and return profile of portfolios after adjustments are applied.

4. Manager Selection

Ultimately, IMX portfolios are made up of allocations to pooled investment funds. As a result we adopt the managers' policies in evaluating ESG factors. The assessment of ESG integration into fund managers' philosophy and process is a key consideration in selecting managers to fulfil asset class mandates. We also need to balance ESG considerations with fee implications and the impact on returns.

Stewardship is of particular focus in equity mandates, as we believe that good stewardship can create and preserve value for companies and markets. We prefer fund managers with strong voting records and the ability to influence corporate behaviours.

5. Monitoring

We monitor the ESG integration and stewardship activities of our fund managers, as well as the overall sustainability characteristics of our portfolios on an ongoing basis.

6. Ongoing governance

We recognise that sustainable investing is a fast-evolving area and we will adapt our approach and strategy as the area evolves. We aim to either evolve alongside or stay ahead of industry practice and behaviours.