

Responsible Investment Report

January-December 2022



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INTRODUCTION

Welcome to Frontier Advisors' first annual Responsible Investment Report, which covers the 2022 calendar year. This report provides an overview of how Frontier approaches responsible investment in helping our clients manage material environmental, social and governance (ESG) issues through our research and advisory efforts and in particular highlights key achievements across 2022.

I know from my experience at the PRI that responsible investment considerations are becoming more critical for asset owners across the globe. Joining the Frontier Advisors Board in late 2021, I was pleased to learn more about Frontier's impressive and practical approach to responsible investment. With both dedicated responsible investment professionals and a cross-functional advisory group, Frontier has adopted an integrated responsible investment approach to support clients to better manage ESG risks and generate sustainable long-term returns. As a member of the Board, I am delighted to have the opportunity to provide direction and input to the firm's responsible investment program.

The ESG challenges and opportunities impacting investments continue to develop and evolve, as does the broader markets awareness, knowledge and practices on the ground. Accordingly, in 2022 Frontier Advisors revisited, reviewed and developed a

revised, all-encompassing responsible investment approach to guide our future activities. In this report, we provide an overview of our activities across these categories of work. I hope you enjoy reading this 2022 Responsible Investment Report.

Fiona Reynolds



Snapshot

ESG engagements 2022

Covering various ESG thematic issues and opportunities.

904 ESG
integrated

183 ESG
specific



Modern slavery assessment

Began development of a framework to assess fund managers' modern slavery risk management approaches.



Collaboration

Became a member of the Responsible Investment Association Australasia (RIAA) to strengthen our commitment to advocating for responsible investing and sustainable finance systems in Australia.



First Nations Peoples

We have undertaken several initiatives to strengthen our approach to building effective relationships and work with Aboriginal and Torres Strait Islander people in line with our corporate commitment to developing the Reconciliation Action Plan (RAP) and publically supporting the Uluru Statement from the Heart.

Climate change risk management

Key commitments



Reducing emissions

We have committed to setting emissions reductions targets across all our operational emissions in line with -1.5°C scenarios.



Integration

Strengthened our research and analytics activities by a new partnership with a climate and ESG analytics service provider.



Net zero commitment

Joined the Net zero Investment Consultants Initiative (NZICI) – a collaborative effort of some of the world's leading investment consultants committed to aligning their operations and advisory services in line with the Paris Agreement.

2.

Responsible investment approach

Responsible investment philosophy

We integrate responsible investment considerations into our processes because incorporating material environmental, social and governance (ESG) factors provides another lens to allow clients to manage risks better and generate sustainable long-term returns.

Responsible beliefs

We have nine responsible investment beliefs within the context of our investment philosophy. Our responsible investment beliefs collectively represent the foundation that underpins all the firm's efforts in this area, reflecting a demonstrable alignment with one or more of the beliefs.

Our four key success pillars



Governance

The objective of our responsible investment governance framework is to provide oversight of the roles and responsibilities for our responsible investment approach and activities, ensuring the decision-making processes are relevant and transparent, and in line with the Responsible Investment Policy.



ESG integration

The objective of our responsible investment research effort is to assist our clients to achieve their long-term sustainable investment outcomes by identifying, evaluating and mitigating investment risks and capturing opportunities arising from ESG factors.



Thematic research

The objective is to ensure that ESG factors are systematically integrated into our research activities and client advisory approaches, supporting our clients' long-term investment objectives.



Collaboration and information sharing

The objective is to collaborate with a wide range of stakeholders together with participating in collective initiatives to:

- Influence enhanced responsible investment practices at the market level.
- Ensure our internal and external stakeholders have access to up-to-date information on relevant responsible investment topics.

3.

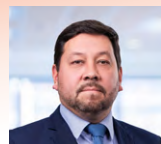
Governance

3.1 Responsible Investment Group

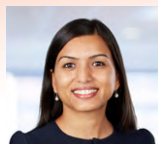
Our Responsible Investment Group (RIG) was established in 2018 and is responsible for thought leadership in and oversight of our efforts in responsible investment. The 'RIG' is chaired by Principal Consultant, Joey Alcock, and includes senior representatives from each of our investment and specialist advisory teams. The RIG reports to Frontier Advisors' Investment Committee and meets each month, with individual members championing ESG considerations within their respective teams.

The RIG's composition reflects our belief that responsible investment should not be "silo-ed" at Frontier. As such, all investment team members integrate material ESG factors into their research, manager rating and client advisory activities day-to-day. This way, clients receive consistent and holistic advice across traditional and responsible investment matters.

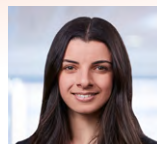
Dedicated responsible investment consultants



Joey Alcock
Responsible
Investment Chair



Priya Patel
Senior Responsible
Investment Adviser



Marie Cardaci
Senior
Consultant



Tom Lambert
Consultant

Inv strategy

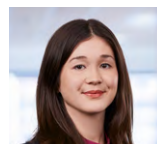


Chris Trevillyan
Director of
Investment Strategy

Investment governance



Brett Lazarides
Head of
Investment
Governance

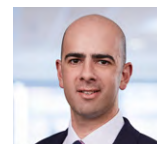


Sarah Cornelius
Senior Consultant,
Investment
Governance

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Kim Bowater
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Principal
Consultant,
Alternatives and
Derivatives



Simone Gavin
Senior
Consultant,
Equities



Nam Tran
Senior
Consultant, Debt
and Currency



Shrabastee Mallik
Senior Consultant,
Real Assets

Our Responsible Investment Team is led by Joey and includes Marie Cardaci, Senior Consultant, Tom Lambert, Consultant/Climate Change Specialist and Priya Patel, who joined the team in January 2022 as a Senior RI Adviser. The team is supported by Natasha Frederick, Practice Projects Manager, and together, these personnel formed our Responsible Investment Team to meet increasing client demand for more specialised and complex responsible investment advice and fee-for-service projects. Our ambition is for the Responsible Investment Team to be the centre of responsible investment excellence, providing practical support to our clients and internal teams across a wide range of ESG-related matters.

3.2 APRA's CPG 229 Climate Change Financial Risks

APRA's Objectives for Regulated Entities on CPG 229

Understand risks and opportunities that may arise from a changing climate



Ensure investment, lending, and underwriting decisions are well-informed

Implementing proportionate governance, risk management, scenario analysis and disclosure practices



The Australian Prudential Regulation Authority (APRA) issued its much-anticipated *Prudential Practice Guide, CPG 229 Climate Change Financial Risks*, in November 2021. In CPG 229, APRA sought to “outline prudent practices in relation to climate change financial risk management”.

In March 2022, we published a *Market Insights report* to provide asset owners with useful principles and practical suggestions that, over time and as appropriate, will help align their approach to managing climate change financial risks with APRA's guidance. The key highlights from the report are:

- While CPG 229's primary audience is APRA-regulated entities, we view the guidance as a valuable framework for all Australian asset owners to consider when managing climate change risks. Each asset owner should seek to engage with CPG 229 in a manner that is appropriate to their particular size, business mix and complexity.

- CPG 229 is an important milestone for regulated asset owners as it effectively confirms that managing climate change financial risks is a fiduciary duty. It provides guidance on APRA's view of sound practice in particular areas but does not create enforceable requirements. Nonetheless, we recommend APRA-regulated asset owners take proactive steps now to progressively align with CPG 229 in anticipation that expectations of the regulator (and other stakeholders) will ultimately crystallise as requirements.
- Climate change is the highest priority responsible investment issue facing asset owners. As such, we have supported clients in identifying, assessing and managing climate change financial risks to achieve their investment objectives, including developing strategies and implementation plans, undertaking climate risk assessment and reporting, scenario analysis, and ongoing research and market developments.





3.3 ASIC's INFO 271 on greenwashing

In June 2022, ASIC released an information sheet, **INFO 271**, titled "How to avoid greenwashing when offering or promoting sustainability-related products". INFO 271 is part of a review by ASIC into whether sustainability-related products issued by funds (including managed funds and superannuation funds) are being managed in line with how they are promoted. The information sheet has three sections which outline:

What greenwashing is and why it's a concern

According to ASIC, greenwashing can distort investors' decision-making ability and threaten a fair and efficient financial system.

The current regulatory settings for communications about sustainability-related products

INFO 271 reminds funds of their current obligations when promoting their products, as covered by the Corporations Act 2001 (Cth) and the Australian Securities and Investments Commission Act 2001 (ASIC Act). ASIC further encourages voluntary disclosure in line with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures and keeping up to date with regulatory developments.

Questions to consider when offering or promoting sustainability-related products

INFO 271 sets out helpful questions that funds should consider when preparing communications and disclosures about their products, such as "is your product true to label?". Examples of behaviour that would be at risk of greenwashing includes failing to explain how ESG is integrated into decision-making.

We believe INFO 271 has implications for all Australian asset owners. Overall, a higher standard is expected of superannuation fund trustees and fund managers concerning stakeholder communications on responsible investment and we expect this trend to continue into the future to protect consumers better. This higher standard is likely to extend to non-superannuation asset owners also, which, although they may not issue financial products, will have stakeholders who are inevitably gaining awareness of greenwashing.

- Taking a broad interpretation of ASIC's definition of "sustainability-related products", we strongly recommend clients apply the guidance to communications regarding all investment offerings where it has stated that the product or portfolio considers ESG considerations, including reviewing all communication materials, Product Disclosure Statements and websites, for any language which may be deemed vague or misleading.
- We highlight our ESG Manager Assessment approach is designed, in part, to identify greenwashing concerns. Our sector research teams engage directly with fund managers in determining whether they are 'walking the talk' specific to the ESG claims based on comprehensive assessment criteria. This facilitates a feedback loop with fund managers and clients, whereby we facilitate a role in influencing the broader industry practices to minimise greenwashing concerns.

4.

ESG integration

4.1 Enhancing our responsible investment capabilities

Our Responsible Investment Team (RI) led the enhancement of our firmwide responsible investment capabilities by delivering capacity-building sessions, and supporting the development of research material on prevalent and emerging thematic ESG topics. The key sessions delivered at an organisation-wide level during 2022 are summarised.



Responsible investment foundations

This session was held to enable team members at all levels to comprehensively describe the firm's approach to RI with clients, understand clients' potential RI challenges, and speak to fund managers about their approaches. We provided a brief "RI 101" for those new to the industry, as well as an overview of our Responsible Investment Policy. This also included our RI approach and beliefs and how RI is incorporated into each area of our investment activities, including common RI challenges, misconceptions and opportunities. These sessions are ongoing to support new team members.

Climate change and net zero

The purpose of this session was to raise awareness regarding climate change risks including but not limited to:

- A brief overview of climate change risks specific to investment decisions.
- A key development of the Paris Agreement and what it means for the global economy.
- Opportunities and challenges relevant to the net zero and decarbonisation journey.
- RI Policy and our overarching approach to facilitate research efforts, manager assessment and tools to assist clients.
- Emerging areas and approaches.

This session was further strengthened by one of our clients with a leading role in developing and implementing a net zero investment strategy, which provided a very informative outline of the journey undertaken so far in this area and the challenges it presents.

Modern slavery risk management

This training highlighted the modern slavery compliance obligations for the firm and our clients under the Modern Slavery Act. The session provided a broad overview of modern slavery compliance risk, providing a foundation upon which we established a Modern Slavery Risk Management program internally.

Governance and responsible investment

This session included key aspects of investment governance frameworks and the important role governance plays in an increasingly challenging future lifting the bar on investment-related ESG risks. The session covered practical tools to enhance a fund's investment governance framework and its operation. It also established an elevated understanding of investment governance arrangements, including fund investment philosophy and beliefs, to improve decision-making and delegations for the wider team.



4.2 Climate risk management

We believe climate change is systemic and one of our generation's most complex global threats which has the potential to have an irreversible negative impact on future generations and the economy in the absence of a worldwide robust mitigation approach. The physical impact of climate change and the net zero transition pathways are likely to have first-order economic effects.¹

The effective identification, assessment and management of risks and opportunities arising from climate change will reinforce the sustainability of investment performance. As such, we consider climate change risk management as an integrated part of all key activities when supporting our clients to meet their investment objectives. As a governing principle, climate change is included as part of our **RI Policy** with a specific **Climate Change Position statement**.

We summarise key activities undertaken to integrate climate change-related risks at Frontier Advisors:

Climate change scenario analytics

We have previously developed return projections that refer to various climate change scenarios. The scenarios and the

underlying macroeconomic projections are based on modelling done for the Network for Greening the Financial System (NGFS). The NGFS is a collaborative network formed by a number of central banks and prudential supervisors to facilitate best practices on the financial management of climate change and environmental considerations. The return projections are available in the Climate Change module of the Portfolio Analytics tool. They complement our longer-term equilibrium return assumptions and have been revised over time to reflect more recently available information. We continue to consider further enhancements to our climate change modelling, which will likely include the integration of climate change scenarios over shorter timeframes and more differentiated impacts across asset classes.

Carbon and ESG reporting

We established a partnership approach with MSCI in 2022, enabling more quantitative integrations of climate risk and broader ESG risks as part of client advisory and internal research activities. We believe this partnership will be valuable for our clients and internal research teams in understanding climate and ESG risk exposures within portfolio/s, enabling informed investment decision-making processes from ESG and climate change perspectives.

BOOK CASE STUDY

Carbon and ESG reporting

We have worked in partnership with clients to assess carbon and ESG reporting from external service providers. The primary focus of this assessment was to create an avenue for our clients to develop or enhance their framework and processes for assessing climate risk exposures underpinned by carbon reporting, along with broader ESG risks as part of their investment decision-making processes.

This partnership approach allowed us to:

- Test participating clients' listed equities and corporate debt portfolios on shortlisted service provider platforms for both carbon and ESG reporting. The client partnership added value in determining which dataset and reporting capabilities would provide more valuable reporting options to enable clients to complement their own reporting and investment risk assessment content without laborious workarounds.
- The partnership approach also allowed us to evaluate the data and reporting functionality in establishing a baseline for carbon emissions measurement and target settings.
- The fund-of-fund reporting capabilities developed by our team underpinned by the external data further enhanced clients' insights into the sources or contributors of carbon and fossil fuel exposures in their equity and corporate debt portfolios. This would not necessarily lead to changes in allocations to the existing panel of fund managers but could help clients to engage with managers on how they manage carbon risks and exposures.
- This reporting functionality was also utilised for ongoing monitoring of carbon risk exposures for a participating client, aiming to integrate the insights into the client's investment stewardship activities and form strategic engagement efforts.

¹ Guy Debelle – Deputy Governor, Climate Change and Economy Forum 2019.

4.3 Modern slavery

Modern slavery occurs in every industry and sector of any region. Modern slavery covers a range of practices where offenders use coercion, threats, violence, or deception to exploit, undermine and deprive people of their freedom.

The Commonwealth Modern Slavery Act 2018 (the Act) entered into force on 1 January 2019, establishing a national Modern Slavery Reporting Requirement in Australia. The Act identifies the practices that constitute modern slavery, illustrated on Chart 1.

We believe protecting human rights correlates with responsible business practices and supply chain resilience. Violating working conditions and human rights can pose significant financial, legal and reputation risks to investee companies. Therefore it is critical for institutional investors to assess, evaluate and manage human rights risks as part of investment capital and protect members' value.

As such, we initiated several activities during 2022 to assist internal research activities and clients.

Modern slavery risk assessment

Continued to enhance the internal proprietary tool to assess modern slavery risks within the portfolio at both the asset class and individual investment holding levels underpinned by a combination of country risk factors and industry-

related risk factors. This tool currently covers listed equities portfolios, but we are in the process of extending its coverage to the real assets and bonds asset classes, coupled with sovereign risk assessment.

Integration of modern slavery into managers' assessment

Established a quantity and quality-based framework to assess managers regarding their modern slavery risk assessment. The assessment framework is intended to establish a baseline from which we can periodically assess the degree of improvement and adjust the rating over time.

Collaboration

We joined a number of external initiatives and participate in external industry-wide briefings and seminars to ensure our team keeps up with emerging and key developments specific to modern slavery risk management. More details are covered in section 6 of this document.

Internal upskilling

Extensive tailored training was delivered to ensure team members understand and adequately integrate modern slavery risks as part of research and engagement activities.



Chart 1: Practices that constitute modern slavery.

4.4 First Nations People

The First Nations' cultural heritage is recognised as central to Australian national heritage and by recognising, protecting and fostering its value as a nation, it connects the ancient past and a hopeful future, creating a pathway for healing. Frontier Advisors acknowledges the Traditional Custodians of Australian land, water, and culture and the value of fostering relationships with Aboriginal and Torres Strait Islander Peoples. We would like to encourage greater explicit acknowledgement and respect of the histories, cultures and rights of the First Nations Peoples, as well as identify opportunities where we could work with Australia's First Peoples. We believe creating a more harmonious and respectful society requires organisations to be proactive and take the initiative to build effective relationships and work with Aboriginal and Torres Strait Islander Peoples.

2022 initiatives

External

We supported the following external initiatives as part of our corporate social responsibility activities:

- Proudly supported the Indigenous Literacy Foundation as our chosen corporate charitable organisation. We recognise the important roles that language and storytelling have for culture and community and, given the area in which we operate, the importance of developing literacy skills for financial awareness and engagement.
- Publicly supported the Uluru Statement from the Heart, which is a momentous Indigenous statement on constitutional recognition that came out of the First Nations National Constitutional Convention in May 2017.



Internal

We worked on a number of initiatives to raise awareness internally and strengthen our understanding and engagement efforts with Aboriginal and Torres Strait Islander peoples:

- Delivered internal training sessions at an organisation-wide level to raise collective understanding and knowledge of fostering relationships with Aboriginal and Torres Strait Islander Peoples along with material initiatives and developments.
- Joined the Responsible Investment Association Australasia (RIAA). RIAA's 'First Nations Peoples' Rights Working Group' is an initiative to support members in their stewardship responsibilities respecting First Nations Peoples' rights in their business operations and their portfolio of companies. The First Nations Peoples' Rights Working Group has a three-fold purpose: address and advance the rights of First Nations Peoples and others subjected to systemic racism;

elevate First Nations Peoples' participation and voices in investment and the responsible investment community; and increase access to scale and impact of First Nations Peoples' related investment activity.

- Established an internal Our First Nations Engagement Working Group comprising representatives from across the business to further strengthen our commitments to our Reconciliation Action Plan (in development).

5.

Thematic research

5.1 Research activities

Our research teams undertake research activities on a range of thematic topics relevant to our clients, often driven by emerging developments in the market. Throughout 2022, we engaged in several ESG-related research papers across the business, a sample of which is summarised in this section.



Net zero carbon in real estate: a complex trajectory (part 1) [🔗](#)

Our Real Assets Team completed a review of trends, challenges and accepted pathways for achieving net zero carbon emissions in real estate. Part One of this two-part analysis looks at how the real estate sector aligns with net zero and where the opportunities lie.

Net zero carbon in real estate: Leaders and laggards (part 2) [🔗](#)

The Real Assets Team released part two of its review of trends, challenges and accepted pathways for achieving net zero carbon emissions in real estate. We look at the results of our manager survey and track the reason for the disparity between stated paths and progress.

ESG assessment of managers [🔗](#)

Our Equities Team scored over 50 active and passive strategies using our ESG Assessment toolkit. We share our findings on the components managers are doing best and worst at and contrast the results from different subgroups.

Infrastructure – energy transition (part 1) [🔗](#) **& (part 2)** [🔗](#)

The Real Assets Team completed a ‘virtual’ research trip to Europe exploring energy transition as a major infrastructure theme of the future. This edition of Frontier International is a two-part series looking at the effort to move to clean, green and renewable energy.

Australian battery storage sector [🔗](#)

The growth of intermittent generation, increasing grid stress and reductions in the cost of storage provides an attractive outlook for battery energy storage systems. We delve into how investors can gain exposure.

Overview of the Australian Renewables market paper [🔗](#)

We take a deep dive into the Australian renewables market, looking at current and historical issues, regulatory changes required, and opportunities for investors. We also provide a table of recent transactions.

Super in the economy – the investment opportunity in Australian private markets [🔗](#)

This paper considers the involvement of Australian superannuation funds in Australian private market investments, with a particular focus on Australian venture capital, Australian agriculture, and Australian social and affordable housing.

Net zero carbon in real estate: a complex trajectory research

The real estate industry is one of the biggest carbon emitters, contributing close to 40% of global carbon emissions.² We sought to understand the wide disparity in standards, disclosure and data collection relating to climate across industry bodies and regulators.

Our Property Research Team surveyed domestic and offshore fund managers to assess their paths toward their stated net zero carbon (NZC) targets. The survey comprised questions on setting Scope 1, 2 and 3 emissions targets, embodied carbon, the use of carbon offsets, sustainable financing and NZC reporting. We engaged with industry experts to assess the reasons for the disparity in NZC targets.

Key conclusions of this research were:

- Sales and rental premiums exist for green-certified real estate.
- Buildings that fail to meet net zero commitments will be left behind and be at risk of becoming stranded assets.
- Specifically, Scope 3 emissions are incredibly challenging for building managers to control and measure.
- Decreased tenant demand and an inability to trade assets will reduce investor returns.

Our conversations with industry practitioners revealed consultation across several industry bodies is underway to standardise best practices. Developers, construction companies and asset owners can all have an active role in facilitating a more effective transition to net zero.

Based on our research, we recommend clients consider the following actions for real estate portfolios:

- Initial and periodic reviews of portfolios to identify gaps and specifically NZC manager progress or other ESG-related aspects.
- Where appropriate, consider managers with a strong affiliation with energy transition and proptechsolutions.
- All stakeholders, specifically managers and developers, must collaborate at every level to decarbonise and achieve net zero by 2050. Alignment of this common goal would be significantly enhanced, in our view, by linking remuneration structures of senior investment professionals to both financial and ESG goals, including tracking against decarbonisation targets.

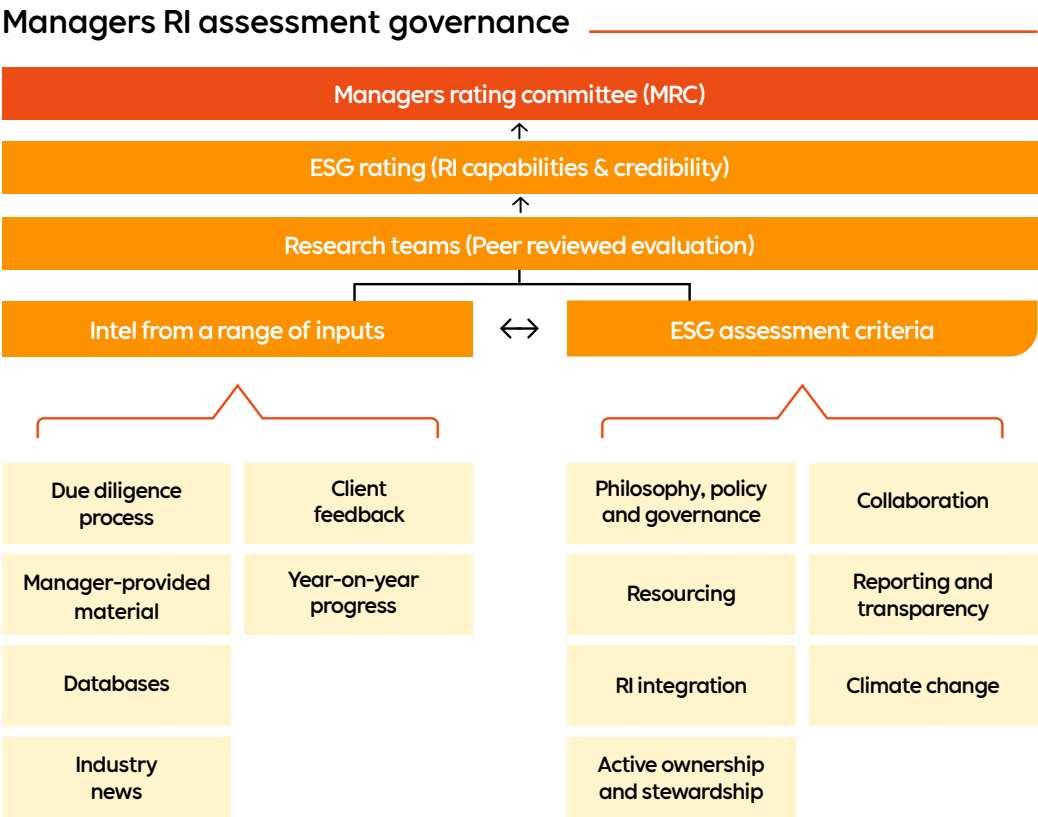


² Global Alliance for Buildings and Construction, "2020 Global Status Report for Building and Construction", 2020

5.2 Managers RI assessment framework

Our responsible investment considerations factor into how we engage, evaluate and rate fund managers on behalf of our clients and we work with our manager research folk to focus on continued uplift given the increased focus in this area globally. Our regular and ongoing engagement with fund managers includes how they manage ESG risks and opportunities. We have established a framework that systematically evaluates managers' ESG capability creating a benchmark within the asset class cohorts and allowing our teams to monitor year-on-year progress.

Our research teams consider information gleaned from various inputs, including but not limited to due diligence meetings with the manager, manager-provided materials, databases, industry news, client feedback and ESG questionnaires.



ESG rating

Our research teams receive tailored and extensive training on the scoring methodology in which individual ESG criteria scores form a part of final RI capabilities and credibility scoring at the investment product level. This has evolved extensively over the past two years and there are many examples of this being seen as an increased area where we can add value, for example:

- A new, sizable asset owner conducted a peer review of their own ESG ratings relative to Frontier Advisors. They gained comfort around our methodology, rigour and timelines of the assessment. Frontier's assessments also aligned well with their own and as such, that client now relies more on our ESG analysis directly and
- A large asset owner, which does not fully engage us for manager research (given the size of their internal team), has contracted with us to solely provide an ESG manager rating report – teasing out all the various views and assessments of their managers from an ESG perspective.

ESG assessment criteria

Our Manager ESG Questionnaire covers a standard set of seven assessment criteria relating to their approach to ESG integration/RI as it pertains to a specific investment product. These assessment criteria are evaluated by sector research teams utilising a toolkit which includes specific questions, a request for description and illustrative examples/evidence.

Our RI assessment criteria:

Philosophy, policy and governance

Cover the manager's overall approach to RI as well as responsibilities and accountabilities for overseeing the implementation of the RI Policy and integration.

Resourcing

Dedicated ESG resources coupled with internal training and sourcing external resources.

RI integration

How ESG-related factors are incorporated as part of the investment decision-making processes.

Active ownership and stewardship

Proxy voting processes and engagement with investee companies to influence and enhance their ESG risk management approaches.

Collaboration

Alignment of the RI objectives of the organisation with external collaborative initiatives, especially for long-term objectives.

RI reporting

Transparency and external reporting on the management of thematic ESG risks and opportunities underpinned by key activities.

Climate Change

Risk and opportunities, management approach and commitment/progress on net zero targets.

Manager Rating Committee (MRC)

The MRC is currently comprised of six members. Our Manager Rating Committee (MRC) is responsible for the consideration and final approval of manager ratings. It oversees the processes undertaken by our sector research teams to monitor managers where matters arise and focus on those managers where clients have capital invested.

Beyond consideration and approval of ratings, the MRC also has additional responsibilities to monitor and review the ESG ratings. The chair of the MRC, as well as the Chair of Frontier Advisors' Investment Committee are both members of the Responsible Investment Group.

We provide an example of a process of engagement with a specific fund manager with respect to our responsible investment approach. Our ESG assessment process has multiple objectives, including providing fund managers clarity on how their leading peers are evolving. In this way, fund managers can improve using insights gleaned by research teams and our clients ultimately benefit from better responsible investment integration in their portfolios.

Over six years the manager's ESG rating had slipped from 'good' to 'behind other peers' in the property universe. We continually remind managers that ESG is an area of continuous change and evolution, and what is considered good at a particular point in time may be behind others later on. We also remind managers that many managers have been and continue to commit additional time, resources, analysis and engagement on all things ESG and this is an important area, which needs focused attention to sustain a competitive advantage or, more often, to ensure a manager does not fall behind.

In this particular case, we continued to engage with the manager and provided feedback on how improvements were required to improve Frontier's star rating of the ESG criteria.

We've summarised the critical areas of focus and engagement outcomes.

Engagement based on the RI rating of a particular manager



RI objectives

Issues:

- RI goals were set at an organisational level; however, integration at a product level was unclear.
- While many organisational-level RI goals were under review, only some product and asset-specific goals were in place and required more explicit articulation.

- Although significant focus was given to net zero carbon emissions, forms and criteria of ESG had limited objectives.

The improvement observed over time:

- The manager established an ESG advisory committee, which meets quarterly in addition to the centralised RI team. Quarterly, annual and bespoke reports formed part of the reporting framework with an effective escalation process for any serious matters.
- The manager identified areas to enhance further ESG integration within the due diligence process and ongoing asset management phase by developing a proprietary climate risk assessment tool.
- The manager now continually monitors its portfolio for associated modern slavery risk, employing an established system with a database on ESG and business conduct risks.

RI resourcing

Issue:

Teams and staff responsible for ESG/RI objectives appeared unstructured, with a lack of transparent reporting lines and alignment.

The improvement observed over time:

- The real estate division established its dedicated sustainability team, which is viewed favourably.
- Clear structure and team were set in place, with a framework incorporating the investment teams. Relevant training and ESG results are built into employees' KPIs.
- Additional ESG tools are being built across the firm with assistance from external consultants.

As a result, we improved our view of the manager's ESG/RI capabilities. The learning from this engagement was also valuable for engaging with other managers within the property cohort.

6.

Collaboration and information sharing



We engage and collaborate with other like-minded organisations and industry associations to enhance our knowledge and understanding of ESG risk management approaches and opportunities across a range of industries and sectors. The objective is to help drive positive changes expected to reinforce the sustainability of investment performance for our clients.

The nature of our participation varies from financial memberships of networks and collaborative initiatives supporting responsible investment commitments to informal interactions with other like-minded market participants on ESG issues.

We are involved in a range of initiatives including:



Investor Group on Climate Change (IGCC) is an Australian and New Zealand collaboration group specific to the climate change impacts on investments. Frontier Advisors actively participates in various discussions and working groups that IGCC lead on behalf of its members.



The Responsible Investment Association Australasia (RIAA) advocates for responsible investing and sustainable finance systems in Australia and New Zealand. RIAA is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy. Frontier Advisors actively participates in various activities led by the RIAA Team.



The Global Investment Research Alliance (GIRA) is an innovative information-sharing alliance between regional, like-minded and independent investment advisory firms. Frontier Advisors and Segal Marco Advisors are the foundation members, creating the Alliance in 2013, with UK-based firm, Lane Clark Peacock, joining in 2014.



Frontier Advisors endorses the Task Force on Climate-related Financial Disclosures (TCFD), encouraging our clients to disclose climate change-related risks and opportunities as per the TCFD recommendations.



6.1 Net zero Investment Consultants Initiative (NZICI)

In September 2021, Frontier Advisors became one of 12 inaugural signatories to the Net zero Investment Consultants Initiative (NZICI). NZICI is a collaboration of some of the world's most prominent investment consultants committed to aligning their operations and advisory services with the 1.5°C degree emissions trajectory outlined in the 2015 Paris Agreement. At the time of NZICI's launch, the signatories were responsible for advising on assets exceeding US\$10 trillion.

Our **original announcement** highlighted one of our responsible investment beliefs: collaborating with like-minded market participants can drive positive change more effectively. Even in the short time since the NZICI initiative has been operational, we have already seen these tangible benefits, particularly in sharing knowledge amongst

our global peers on how we can better support our clients collectively on their decarbonisation journeys.

- As an NZICI signatory, we have committed to a range of actions to integrate advice on net zero alignments into all our investment consulting services. While we were already on this journey, NZICI has provided additional momentum.
- Our primary goal through 2023 is to develop a holistic net zero framework for clients to assist them in aligning to net zero investment objectives.
- This is expected to cover a comprehensive range of activities identified by the more widely accepted net zero investment frameworks, such as NZAOA or the PAI, focusing on areas we consider strongly complement our existing services.
- We have progressed in several key areas, including climate risk measurement, net zero research within sectors, engaging with investment managers specifically on net zero, and training our personnel.

6.2 Frontier Annual Conference

The 2022 Frontier Annual Conference program consisted of eleven individual sessions with a range of speakers from around the globe, across the industry and from within our firm. Two of these sessions had a specific focus on RI topics. We've provided a high-level summary of the sessions with its respective synopsis.

Equities: ESG scoring and impact [🔗](#)

In 2020, our Responsible Investment Team finalised our "Manager ESG Assessment Toolkit". Our Equities Team has now scored over 50 different active and passive strategies using this Toolkit. We shared our findings on the components of responsible investment in terms of which equities managers are doing best and worst, as well as contrasted the results from different subgroups such as Australian versus global managers and broad cap versus small cap managers.

CPG229 – APRA's prudential guidance on managing climate change financial risks [🔗](#)

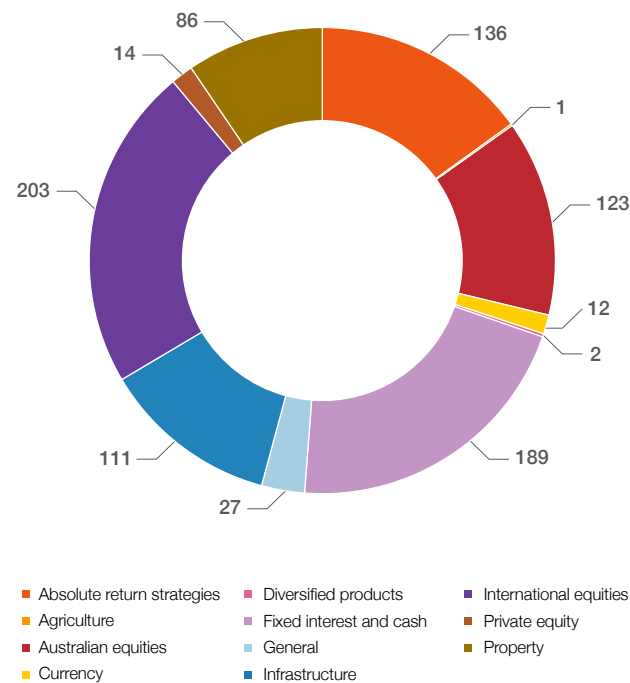
In November 2021, the Australian Prudential Regulation Authority (APRA) issued its Prudential Practice Guide, CPG 229, on managing the financial risks related to climate change risks. APRA's focus on the financial risks arising from climate change reflects its evolving view of how climate change may impact its mandate to support a stable, efficient and competitive financial system. This session explored what this means for asset owners, along with broader climate risk management considerations.

6.3 Engagement activities

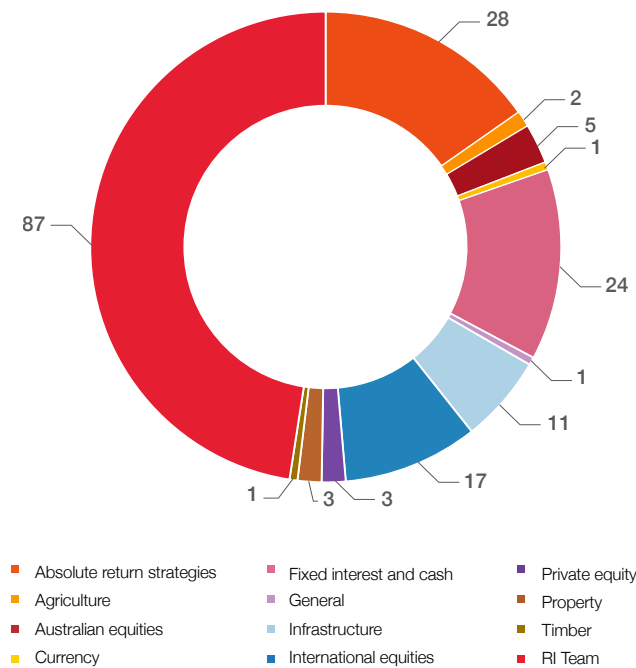
Our research and responsible investment teams collectively undertook 904 ESG integrated and 183 ESG-specific engagements during CY 2022. The responsible investment and ESG landscape continues to evolve and develop rapidly, which warrants more engagement and collaborations to cover a broad range of topics in order to effectively manage ESG risks and opportunities. Our Responsible Investment Team works alongside external and internal stakeholders in an integrated manner when considering ESG management.

The two charts on this page summarise the engagement activities for 2022.

**ESG integrated engagement
by asset class teams**



**ESG specific engagement
by asset class teams**



ESG themes covered as part of our engagements

-  Governance
-  Climate change
-  Modern slavery
-  Biodiversity
-  Diversity and inclusion
-  Rights of First Nations Peoples
-  Impact management
-  Reporting and transparency
-  ESG in alpha
-  Emerging global ESG legislation
-  Investment strategy or product

Appendix – Frontier Advisors’ RI beliefs

Collectively, Frontier Advisors’ responsible investment beliefs represent the foundation that underpins all the firm’s efforts in this area. Any work undertaken by us with respect to responsible investment will reflect an alignment with one or more of the beliefs.

BELIEF 1

Responsible investment supports a more sustainable real economy

Effective responsible investment reinforces the sustainability of the real economy and key global systems, which is vital for long-term, institutional asset owners.

BELIEF 2

ESG factors impact financial risks and returns

ESG factors can and do impact financial risks and returns, and, therefore, the sustainability of investment performance.

BELIEF 3

Responsible investment is a duty of a financial fiduciary

Appropriate consideration and management of ESG factors and issues reinforce the sustainability of investment performance. The effective integration of responsible investment into investment strategy and implementation is, therefore, a duty of a financial fiduciary.

BELIEF 4

Responsible investment should adapt as ESG factors change

ESG factors and issues are dynamic, so continual research and monitoring are required to appropriately manage ESG risks and capture sustainable investment opportunities arising through time.

BELIEF 5

Responsible investment should account for ESG factor materiality

Both the materiality of, and the ability to effectively manage the impact on performance sustainability vary by ESG factor and should guide the allocation of responsible investment efforts and resourcing.

BELIEF 6

Active ownership enhances an investment’s risk/return profile

Active ownership, including effective engagement with relevant market participants and proxy voting, enhances the risk/return profile of investments.

BELIEF 7

Collective ESG action can more effectively drive positive change

Robust collective action on relevant ESG issues alongside like-minded market participants can reinforce the effectiveness of addressing those issues relative to acting in isolation.

BELIEF 8

Climate change is the highest priority ESG issue facing investors

Climate change is the highest priority ESG issue facing long-term investors with diversified global portfolios due to its expected impact on returns from all asset types and sectors. The effective identification, assessment and management of risks and capture of opportunities arising from climate change will reinforce the sustainability of investment performance.

BELIEF 9

Responsible investment should be tailored for each investor

The approach to integrating responsible investment should account for an investor’s unique set of objectives, constraints and beliefs.

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