Stewardship report
2025

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This document is dated May 2026.

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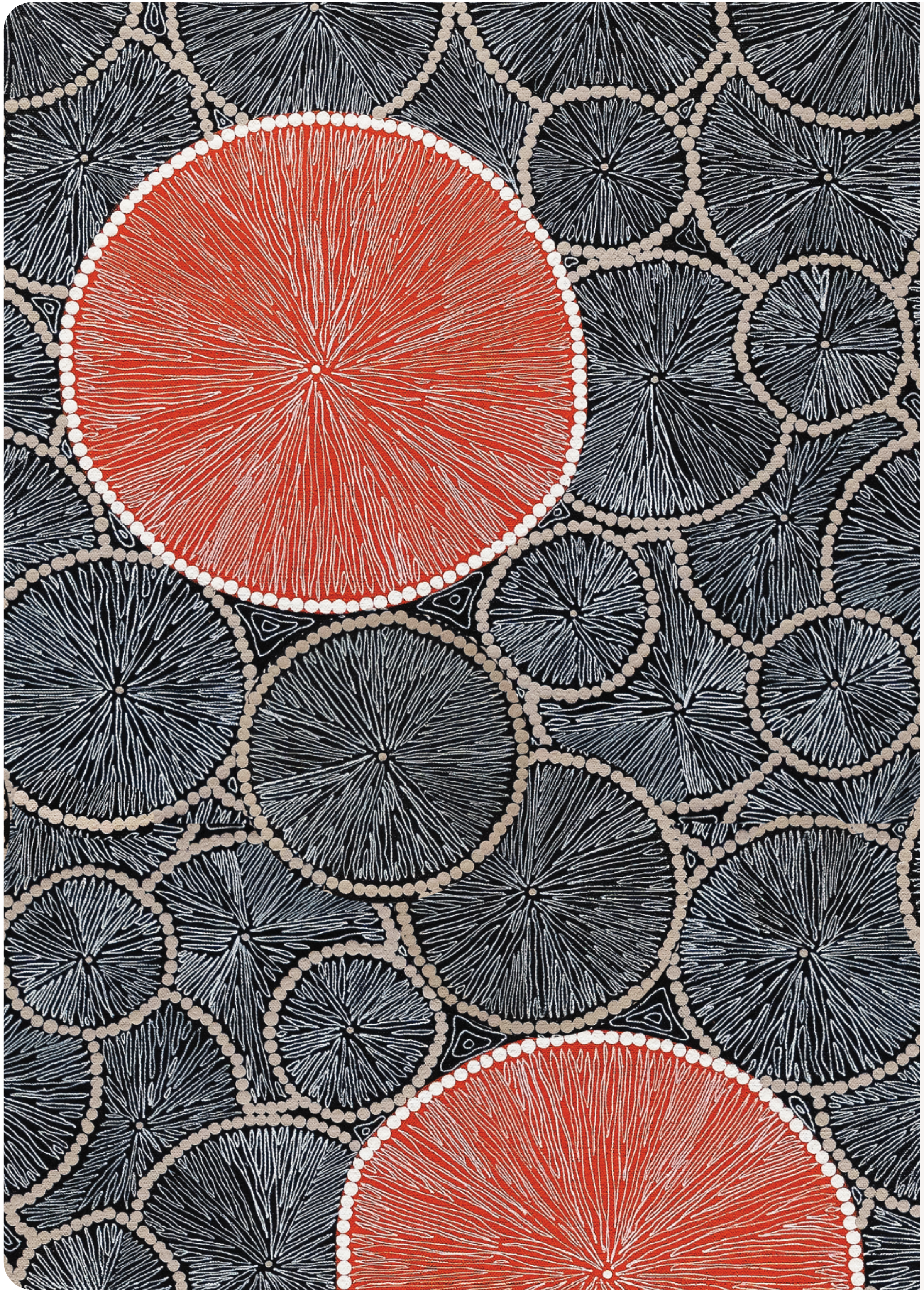

Acknowledgement of Country

In the spirit of reconciliation, Betashares acknowledges the Traditional Custodians of country throughout Australia, and their connections to land, sea, and community. We pay our respect to Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples today.

On Ancient Ground, 2023
Brett Groves, acrylic on cotton, framed canvas

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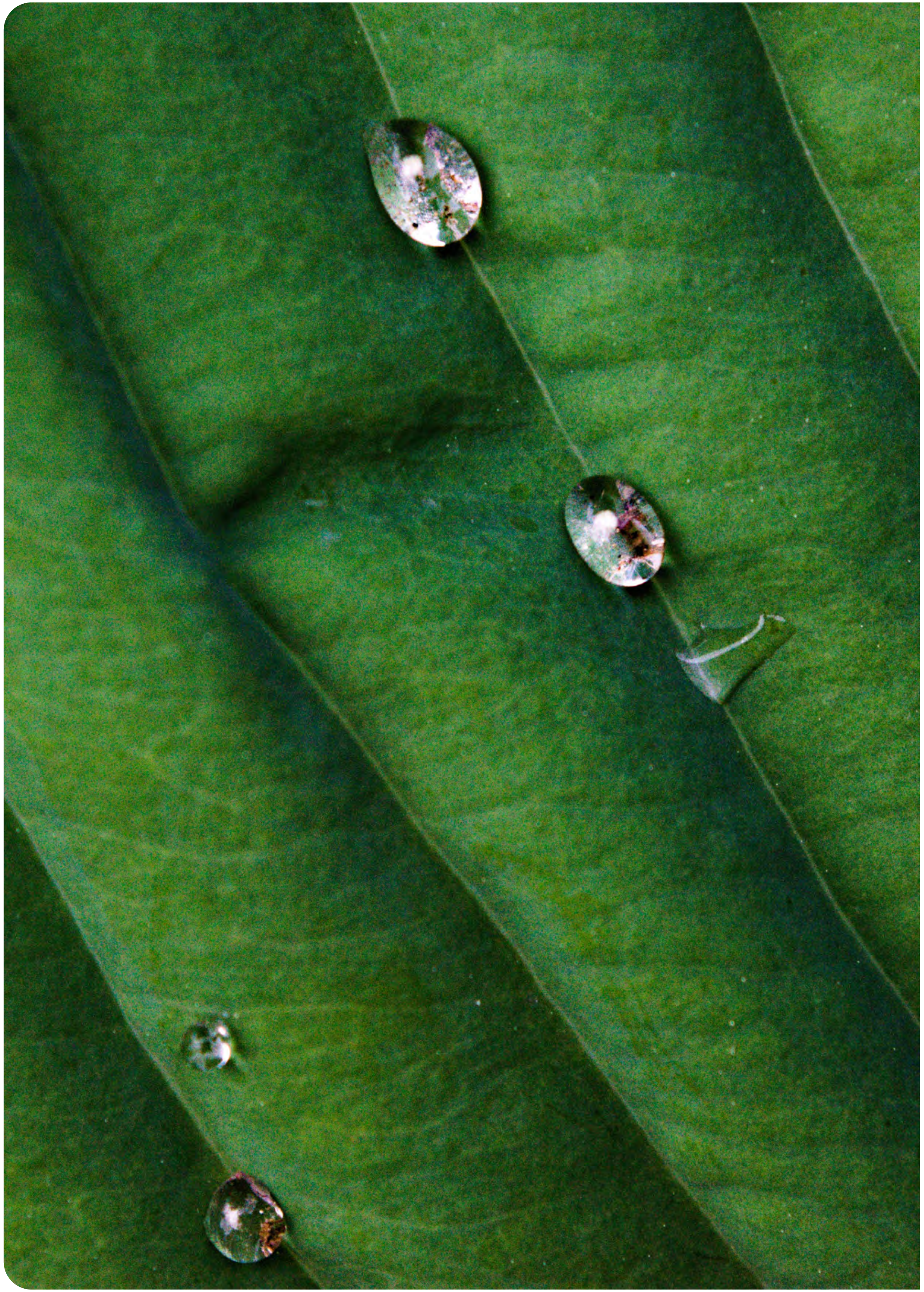

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1 Introduction

Welcome to the 2025 Betashares Stewardship Report. As an investment manager, we recognise our responsibility to act as stewards of our clients' capital, with a focus on protecting and enhancing long-term value.

Over the past year, we have continued to evolve our responsible investment and stewardship approach in response to a rapidly changing regulatory, market and sustainability landscape.

This report provides a clear and transparent account of our stewardship activities, including how we engage with portfolio companies and exercise our voting rights to address material environmental, social and governance risks and opportunities.

About us

Betashares is a leading Australian fund manager specialising in exchange traded funds (ETFs) and other funds traded on the Australian Securities Exchange (ASX). Since launching our first ETF more than a decade ago, Betashares has grown to become one of Australia's largest managers of ETFs. Trusted by hundreds of thousands of Australian investors, Betashares offers cost-effective, simple and liquid access to the broadest range of ETF investment solutions available on the ASX, covering almost every asset class and investment strategy. As of April 2026, Betashares has more than $68 billion in funds under management in over 90 funds.

Betashares' range of ethical ETFs were the first ETFs in Australia to combine strict fossil fuel screens with a broad set of responsible investing screens, offering investors 'true-to-label' ethical investment options.

In April 2021, Betashares became a signatory to the United Nations (UN) Principles of Responsible Investment (PRI, the Principles). As a signatory to the Principles, Betashares is committed to implementing the six principles of responsible investment into our business practices.

Betashares is a member of the Responsible Investment Association Australasia (RIAA). With over 500 members, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand. Betashares is committed to RIAA's goal of ensuring capital is aligned to achieving a healthy society, environment, and economy.

Our approach to Responsible Investment

The Betashares Responsible Investment Policy sets out our approach to incorporating environmental, social and governance (ESG) considerations into product design, portfolio construction and investment processes. Complementing this, the Betashares Stewardship Policy outlines how we exercise our rights and responsibilities as an investor, including through proxy voting, company engagement and escalation where appropriate. Together, these frameworks reflect our fiduciary duty to act in the best interests of investors while considering long-term risks and opportunities.

Given the breadth of our product suite, our approach to responsible investment is tailored to the specific objectives, exposures and values underpinning each fund. For our ethical ETFs, ESG considerations are embedded through transparent, rules-based screening methodologies designed to align portfolios with clearly defined sustainability outcomes.

Stewardship plays a critical role in maintaining this alignment over time. We implement comprehensive negative, norms-based and, where applicable, positive screens at the index level, and complement this with ongoing monitoring of investee companies for ESG-related risks and controversies. This monitoring is overseen by our Responsible Investment Committee (RIC), which also guides our approach to proxy voting and engagement to ensure consistency with the objectives and values of each fund.

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Our commitment to stewardship

Betashares is deeply committed to stewardship and recognises its role as a custodian of client capital. Investors in our ethical ETFs expect our stewardship activities to be consistent with the values embedded in each fund's index methodology.

The investment landscape continues to evolve, with growing recognition of the financial relevance of environmental, social and governance (ESG) factors in shaping long-term risk and return.

Against this backdrop, stewardship is a core part of how we seek to protect and enhance long-term value on behalf of our clients. Through engagement, proxy voting and disciplined investment practices, we aim to promote strong corporate governance and support the effective management of material environmental and social risks and opportunities.

Our stewardship activities are guided by the following principles:

Client-centric approach:

We act in the best long-term interests of our clients and beneficiaries.

Long-term perspective:

We focus on creating sustainable value over the long term, rather than short-term gains.

Materiality:

We prioritise ESG issues that have the most significant impact on long-term value creation.

Active ownership:

We actively exercise our rights and responsibilities as shareholders and owners of debt securities.

Constructive engagement:

We seek to build constructive, long-term relationships with investee companies.

Collaboration:

We collaborate with other investors and stakeholders where appropriate to enhance our impact.

Transparency:

We are committed to clear and regular reporting on our stewardship activities and outcomes.

Continuous improvement:

We strive to continuously enhance our stewardship practices and capabilities.

Key progress in 2025

In 2025, Betashares continued to build on its responsible investing credentials through expanded stewardship activity, a growing ethical ETF suite, and sustained industry recognition:

Expansion of Ethical Investment offerings

- In February 2025, Betashares restructured GBND into a pure play green bond ETF. The changes, which took effect following the close of ASX trading on 28 February 2025, repositioned the fund to deliver efficient, cost-effective and transparent exposure specifically to international green bonds. The fund, now named the Betashares Global Green Bond Currency Hedged ETF, aims to track an index comprising global green bonds -- using the definition applied by the Climate Bonds Initiative -- issued specifically to finance environmentally friendly projects, denominated in Euro or US dollars, and screened to avoid issuers with material exposure to activities inconsistent with responsible investment considerations.

Proxy Voting and Engagement

- Throughout 2025, Betashares undertook extensive proxy voting and company engagement activities. Engagement priorities included remuneration, biodiversity and deforestation risks, climate change, modern slavery and human rights, supply chain sustainability, animal welfare, and responsible artificial intelligence.
- Betashares also completed the transition of its proxy voting service provider from ISS to Glass Lewis, enhancing governance and oversight processes.

Investor outreach

- Betashares continued active engagement with the adviser and investor community through conferences, planner days, and the publication of thematic responsible investing content, including a forward-looking piece on the five key responsible investment trends to watch in 2025.

Industry recognition and certifications

- Betashares maintained certification from the Responsible Investment Association Australasia (RIAA) for a number of funds, including ETHI, FAIR, ERTH, GBND and the Ethical Diversified ETFs. This certification recognises adherence to the strict operational and disclosure standards required under the Responsible Investment Certification Program.

Ethical and Responsible Investments

Ethical investing	Impact investing	Sustainability-themed
Description		
Characterised by the use of negative screening to exclude sectors and companies involved in activities with negative environmental or social impacts, and norms-based screening to exclude companies that do not meet minimum standards of business practice based on international norms and conventions such as the UN Global Compact. Can be combined with positive screens to preference companies with positive ESG factor exposures.	Investing with the intention of achieving positive environmental or social impacts.	Investing in companies specifically related to improving environmental or social sustainability.
Betashares ETF		
Global Equities | ETHI | HETH Australian Equities | FAIR Fixed Income | GBND | AEBD Ethical Diversified Funds | DBBF | DGGF | DZZF Ethical Model Portfolio Solutions	Decarbonisation | ERTH	Energy Transition Metals | XMET Electric Vehicles and Future Mobility | DRIV

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Industry credentials and recognition

Signatory of:

BetaShares – Global Sustainability Leaders ETF

Ethical Survey, as voted by members of the Ethical Advisers Co-Op

Appealing

2 Our purpose

At Betashares, we believe that investing is the key to wealth creation and securing superior financial outcomes. The money we manage is not our own. It belongs to our clients – Australians and New Zealanders investing over the long term to meet their financial goals.

Clients are at the heart of our business, and our purpose is to help as many clients as possible to achieve their financial objectives.

Betashares has a history of innovation and a reputation as a pioneer in the Australian ETF industry. Since our inception, our aim has been to make investing a positive force. We are privileged to serve an inspiring group of individuals, families, not-for-profits, institutions, and financial advisers across Australia.

We make investing accessible and affordable, and offer the broadest range of ETFs on the ASX – guided by our core principles: simplicity, cost-effectiveness, and transparency. Whether clients are looking to grow their savings, invest in super, or are just getting started on reaching their financial goals,

Betashares strives to enable every Australian to financially progress.

We recognise the role that investment managers can play in promoting responsible investment practices, and our position in being able to positively influence the way business is conducted, for the greater good of all stakeholders.

Betashares aims to conduct its operations with respect for the environment, to be socially minded and community focused, and to adhere to a transparent governance framework. We believe we can pursue the dual mandate of delivering financial well-being for our stakeholders as well as thriving as a business. This approach guides us through our partnerships with clients and suppliers, as investors in financial markets, our business practices, as employers, and as members of the community.

Our vision is to be the leading independent, customer-focused financial services brand in Australia.

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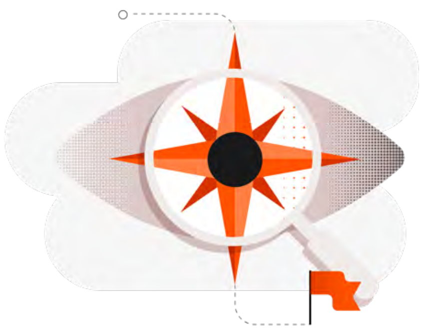
3 Our culture and values

Betashares was launched with the vision to create intelligent and accessible investment solutions for Australian investors. Our dedication to helping Australian investors achieve their financial goals has seen Betashares grow from being a challenger to a market leader. Our core values are integrity, humility, care, and innovation.

Our people are the heart of our business and leveraging our diverse life experiences, distinct capabilities and skillsets is the key to our success. We value these differences but are cognisant that we must create the right environment to flourish. We are proud of the culture we have built, and we continue to focus on maintaining an inclusive outcomes-focused environment underpinned by trust, that encourages innovation, values collaboration, and rewards hard work.

A strong moral compass



Ambition, combined with humility

Care

Innovation

4 Our range of ethical and responsible investment products

Ethical Products

Single asset class funds

Fund	ASX Ticker	Investment Exposure	Index
Betashares Global Sustainability Leaders ETF	ETHI	Large global companies (currency hedged or unhedged)[1]	Nasdaq Future Global Sustainability Leaders Index
Betashares Global Sustainability Leaders Currency Hedged ETF	HETH		Nasdaq Future Global Sustainability Leaders Currency Hedged AUD Index
Betashares Australian Sustainability Leaders ETF	FAIR	ASX-listed companies	Nasdaq Future Australian Sustainability Leaders Index
Betashares Global Green Bond Currency Hedged ETF	GBND	Global Green bonds	Solactive Global IG Fixed Rate Green Bond Index - AUD Hedged
Betashares Ethical Australian Composite Bond ETF	AEBD	Diversified ethically-screened portfolio of Australian bonds	Bloomberg Australian Enhanced Yield Ethically Screened Composite Bond Index

Each of the single asset class funds is an 'index fund'. This means the objective of the fund is to track the performance of a specific index, before fees and expenses. An index measures the performance of a portfolio of securities that has been constructed in accordance with specific rules (the index rules). Well-known indices include the S&P/ASX 200 and the Nasdaq 100. The index that each of our single asset class ethical funds aims to track is set out in the table above.

[1] HETH currently obtains its investment exposure by investing in ETHI.

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Diversified Funds

Fund	ASX Ticker	Investment Exposure
Betashares Ethical Diversified Balanced ETF	DBBF	These ethical multi asset funds provide exposure to a passive blending of asset classes, including Australian and global shares and bonds, according to their strategic asset allocations.
Betashares Ethical Diversified Growth ETF	DGGF	
Betashares Ethical Diversified High Growth ETF	DZZF	

The Diversified funds provide all-in-one exposure to a range of asset classes and are built using differing combinations of the single asset class ethical funds.

Managed Accounts

Fund	Investment Exposure
Betashares Australian Sustainability Leaders model	The Australian Sustainability Leaders portfolio comprises the largest and most liquid names from the FAIR portfolio. The ethical multi-asset managed accounts comprise the Australian Sustainability Leaders portfolio and allocations to ETHI and GBND.
Betashares Ethical Diversified – Balanced model	
Betashares Ethical Diversified – Growth model	
Betashares Ethical Diversified – High Growth model	

Impact Investing Products

Fund	ASX Ticker	Investment Exposure	Index
Betashares Climate Change Innovation ETF	ERTH	Global companies	Solactive Climate Change and Environmental Opportunities Index

NZ Investment Exposure

Fund	Investment Exposure
Betashares Australian Sustainability Leaders Fund	ASX-listed companies
Betashares Global Sustainability Leaders Fund	Large global companies (currency unhedged)
Betashares Global Sustainability Leaders Fund (NZD Hedged)	Large global companies (currency hedged)
Betashares NZ Sustainability Leaders Fund	NZX or ASX-listed companies headquartered in New Zealand

Sustainability-themed Products

Fund	ASX Ticker	Investment Exposure	Index
Betashares Electric Vehicle and Future Mobility ETF	DRIV	Global companies	Solactive Future Mobility Index
Betashares Energy Transition Metals ETF	XMET	Global companies	Nasdaq Sprott Energy Transition Materials Select Index

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5 Investment process

Betashares' suite of funds offer a broad range of investment strategies designed to give investors access to investment markets, sectors, or themes in an efficient and cost-effective manner. Some of these strategies specifically target ESG-related themes or employ negative and norms- based screens. In all instances, we seek to be transparent as to the extent to which ESG considerations are incorporated into product design, portfolio construction and security selection processes.

In our Ethical & Responsible Investment funds, the rules and guidelines that govern how each of the single asset class funds invests are described in detail in the index methodology associated with the fund. You can find the index methodology for each fund on the Betashares website. Because our diversified funds invest solely in the single asset class funds, the ESG characteristics of the diversified funds match the characteristics of these underlying funds.

Negative, Norms-based and Positive Screening

The index rules for our Ethical & Responsible funds incorporate 'negative screening', 'norms-based screening' and 'positive screening'. Negative screens are applied to the activities that the fund 'screens out', meaning that companies or issuers engaging in these activities are excluded from the index, and therefore consideration for investment by the funds. The use of comprehensive negative screens has the objective of excluding companies involved in activities with negative environmental or social impacts (noting dependent on the activity, materiality thresholds may be applied).

In 2025, we continued to work with our index providers to refine the negative screens for our ethical products. A list of the negative screens applied to our ethical products is included in Appendix A.

Norms-based screening aims to exclude companies that do not meet minimum standards of business practice based on international norms and conventions. These are documented in treaties and conventions such as the 10 principles of the UN Global Compact, the UN Declaration of Human Rights, the International Bill of Human Rights, and the OECD Guidelines for Multinational Enterprises. Norms-based screening is usually, although not always, done on a reactionary basis following a controversy that has come to light. In our ethical suite of products, the RIC continually monitors portfolios for controversy.

Negative screening can be combined with positive screens to preference companies with positive ESG factor exposures.

In our ethical suite of products, while positive screening varies between funds, the purpose and philosophy is the same: to weight the portfolios towards companies and issuers that are contributing to a more sustainable future. In ETHI, we favour climate leaders, being those companies operating with a carbon intensity (measured as tons of CO_2 emitted per US million dollars of revenue) that is superior to their industry peers.

In FAIR, preference is given to companies that have been identified as 'Sustainability Leaders'. The criteria for classifying companies as Sustainability Leaders have been determined with reference to the United Nations Sustainable Development Goals (UN SDGs) and their underlying targets. GBND consists of ethically screened 'green bonds', being bonds that have been issued specifically to fund projects with environmental or climate benefits. GBND uses the Climate Bond Initiative Climate Bonds Taxonomy in determining which green bonds are eligible for index inclusion.

The negative and positive screens, as set out in the index rules, are what drive the additions to, and deletions from, our ethical funds.

Set out on the next page is a sample of companies selected for investment, or screened out, during 2025, as a result of the investment process described above.

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Sample of companies

Screened out	Included
Keysight Technologies (KEYS): The company was excluded under the armaments and militarism screen after new data revealed indirect exposure to the defence industry exceeding the 5% revenue threshold.	**Broadcom Inc. (AVGO):** Broadcom is a global infrastructure technology company producing semiconductors and software for data centres, networking, and broadband. It was added as it is now a carbon leader.
Mercedes-Benz Group (MBG): The company was excluded under the armaments and militarism screen as new data revealed that the business was involved in the manufacture of armour-protected trucks.	**Salesforce (CRM):** Salesforce is a leading cloud-based software and CRM platform. It was added as it is now a carbon leader in the software and computer services sector.
Wisetech Global (WTC): The company was excluded under the controversy screen due to ongoing corporate governance issues.	**Eagers Automotive (APE):** Eagers Automotive is one of Australia's largest automotive retail groups. It was added to the index after meeting market capitalization and liquidity requirements.
Sigma Healthcare (SIG): The company was excluded under the tobacco screen following a review of its product distribution activities, which were found to include vapes and e-cigarettes.	**Superloop Limited (SLC):** Superloop is an Australian broadband and telecommunications provider. It was added as a new entrant to the starting universe and passed all negative screens.
Dragados SA (ACSSCE): The company was excluded under the armaments and militarism screen after winning a contract to construct a dock for nuclear submarines.	**SK On Co. (SKONKR):** SK On is a South Korean electric vehicle battery manufacturer. It was added after achieving female board representation meeting the index's board gender diversity screen.

Responsible Investment Committee (RIC)

Under the index rules for our ethical funds (FAIR, ETHI, GBND), the responsibility for applying negative and norms-based screening rests with the RIC. The RIC also determines the proxy voting policies of the funds and drives corporate engagement efforts.

The RIC comprises one Betashares representative and two external representatives with experience and expertise in responsible investing. As at 31 March 2026 the membership of the RIC is:

- **Vinnay Cchoda (Chair)**
  Manager – Responsible Investment, Betashares
  (Alternate for Greg Liddell, Director – Responsible Investments, Betashares)
- **Kylie Charlton**
  Managing Director, Australian Impact Investments
- **Emily Flood**
  Chief Impact Officer, Future Group

Under the index rules for our newly launched ethical funds (AEBD and NZSL), the responsibility of applying negative and norms-based screening rests with an internal RIC. The internal RIC, which is appointed by Betashares, consists of individuals with the necessary skills and expertise that are consistent with the roles and responsibilities for a member of the RIC as per the Responsible Investment Committee Charter.

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6 Our partners and key relationships

Index providers	SOLACTIVE German Index Engineering	Solactive is a German-based index provider that develops tailor-made index solutions for leading global asset managers and investment banks. It is a key provider for our ethical suite of products.
	Nasdaq	Nasdaq Inc is an American multinational business which operates an index provider business and owns and operates three stock exchanges in the US and seven European stock exchanges. It is a key index provider for our ethical suite of products.
ESG research partners	GLASS LEWIS	Glass Lewis is a leading global provider of independent corporate governance research, data-driven insights, and innovative stewardship and proxy voting solutions.
	ISS	Institutional Shareholder Services (ISS) is a leading provider of corporate governance, proxy voting, and responsible investment solutions.
Data partners	Bloomberg	Bloomberg is one of the world's largest financial software and data companies.

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7 Modern Slavery

Betashares is committed to identifying, monitoring and mitigating modern slavery risks within our business and supply chains.

Modern slavery involves serious forms of exploitation such as trafficking in persons, slavery, servitude, forced marriage, forced labour, debt bondage, deceptive recruiting for labour or services, and the worst forms of child labour.

We understand modern slavery can occur in many forms, including human trafficking and forced labour. Betashares takes a risk-based approach to identifying, mitigating and managing modern slavery risks that may be present within our supply chain.

Our approach to reducing the risk of modern slavery within our supply chains and our operations is guided by the UN Guiding Principles on Business and Human Rights and the United Nations Global Compact.

More information on how we approach modern slavery as outlined in our modern slavery statement can be found under the [Modern Slavery Statements Register].

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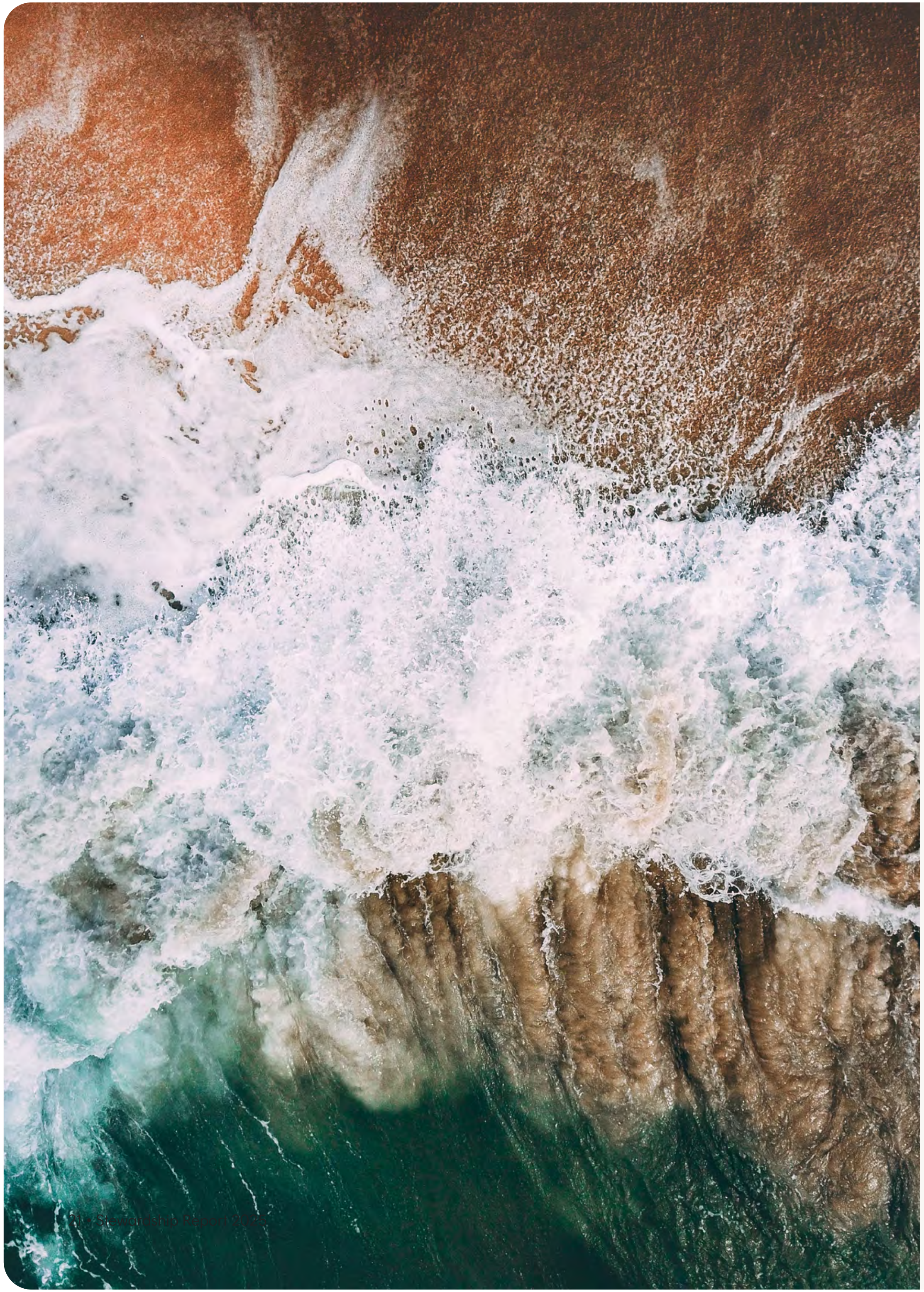

8 Conflicts of interest

Betashares is aware of its fiduciary duty to clients, and in this context the importance of managing Conflicts of Interest (COI) and ensuring investors maintain confidence in us.

We have developed a COI framework that seeks to identify, assess and manage all COI identified within our business operations. For example, we have implemented ongoing COI staff training, and each identified COI is assessed on its own merit with appropriate controls implemented that are reviewed on an ongoing basis.

In the interest of independence, the COI framework is overseen by our compliance function.

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Engagement

Our approach to engagement

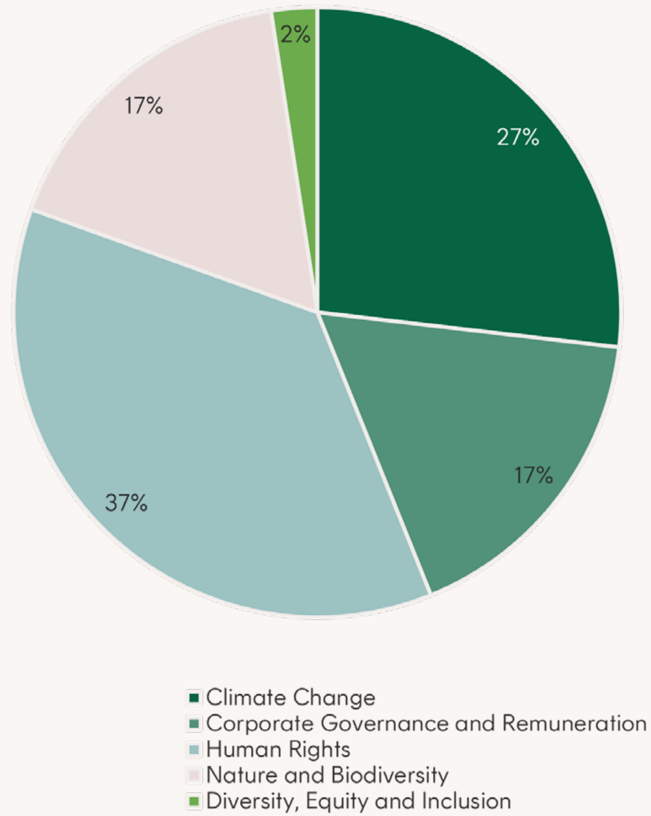
The Betashares investment process is designed to ensure that funds invest in a manner which is transparent and rules-based. In our ethical suite of products, we endeavour to ensure that we only invest in companies whose business operations meet the ethical rules and guidelines set out in the relevant index methodology.

Engagement is a core component of how we give effect to those rules in practice. While our index methodologies determine which companies are eligible for inclusion, engagement is how we test whether companies are continuing to meet the standards expected of constituents, and how we respond to emerging issues that may not be captured by mechanical screens alone. We tailor our approach in each case to ensure alignment with the values implicit in the index methodology and the expectations of our investors.

In 2025, we continued to engage actively with companies in our ethical product suite and with holdings outside that suite. Our engagement programme this year encompassed direct meetings with boards and management, site visits, written correspondence with investor relations functions, and escalation to exclusion where warranted.

The following case studies illustrate this approach in practice across a range of themes including corporate governance, human rights, diversity, climate transition, environmental and social risk, and biodiversity.

Betashares engagement 2025



*Excluding our active ETFs where management is outsourced to active managers.

Case study: WiseTech Global - Corporate Governance

Sector: Information Technology

Fund: FAIR

Outcome: Excluded from index, April 2025

In late 2024, serious allegations regarding the conduct of WiseTech Global's founder and CEO emerged through mainstream financial reporting, alongside broader concerns about board oversight, workplace culture and disclosure practices. The matter was escalated through Betashares' ESG controversy monitoring process to the Responsible Investment Committee (RIC) for formal review.

We did not treat the matter as one of individual executive conduct. Our assessment framework considered governance integrity, the independence and scope of the board's response, workplace culture, and the company's alignment with the responsible business conduct expectations of the FAIR index.

On 28 October 2024, we met directly with the Chair of WiseTech Global to discuss the allegations, the board's governance response, and the proposed scope of the company-commissioned independent review. Following the company's ASX announcement of 22 November 2024 outlining the initial review findings, we identified several unresolved concerns. On 25 November 2024, we wrote formally to WiseTech's Investor Relations seeking clarification on disclosure practices and the scope of the independent review. Engagement continued through December 2024.

The responses received did not adequately resolve the RIC's concerns regarding governance transparency, the independence of the investigation process, or the board's handling of the matter. The RIC determined to continue monitoring the company pending the full review findings.

Further allegations surfaced in January 2025, followed in February 2025 by the resignation of the Chair and most of the board, reportedly over disagreements about the CEO's future role. The RIC concluded that the company's governance position was not consistent with the standards expected of FAIR constituents and resolved to exclude WiseTech Global. Following RIC sign-off, legal and compliance review, and index provider confirmation, the company was removed from FAIR in April 2025.

Case study: International Finance Corporation (IFC) - Human Rights

Issuer type: Supranational (development finance institution)

Fund: GBND

Outcome: Ongoing engagement

The International Finance Corporation (IFC), the private sector arm of the World Bank Group, is a supranational issuer held in GBND. In early 2025, media reporting raised serious human rights concerns regarding IFC-financed private hospitals in parts of Africa and Asia. The allegations included the detention of patients unable to settle medical bills, denial of emergency treatment to those who could not pay upfront fees, and, in some cases, the withholding of birth certificates from newborns until accounts were cleared.

These practices, if substantiated, raise material concerns under internationally recognised human rights frameworks, including the right to health, the right to liberty, and the rights of the child. As a development finance institution mandated to deliver positive development outcomes, IFC carries a heightened responsibility for the conduct of the projects it finances.

On 9 April 2025, Betashares contacted IFC to request a meeting or written update addressing the allegations. IFC responded with information on its investment approach to private healthcare and subsequently issued a public statement in July 2025.

In that statement, IFC acknowledged recent patient safety incidents at client hospitals and recognised the need to strengthen oversight of its health portfolio. It outlined enhancements to its appraisal and supervision processes, including new quality and ethical assessment tools, a review of existing health investments for risk exposure, and the application of corrective safeguards where required. For new commitments, IFC indicated that adherence to ethical standards would be a decisive factor in client selection.

We regard IFC's response as a constructive first step in addressing the concerns raised.

Case study: Roche Holding AG - Diversity, Equity and Inclusion

Sector: Health Care

Fund: ETHI

Outcome: Ongoing engagement

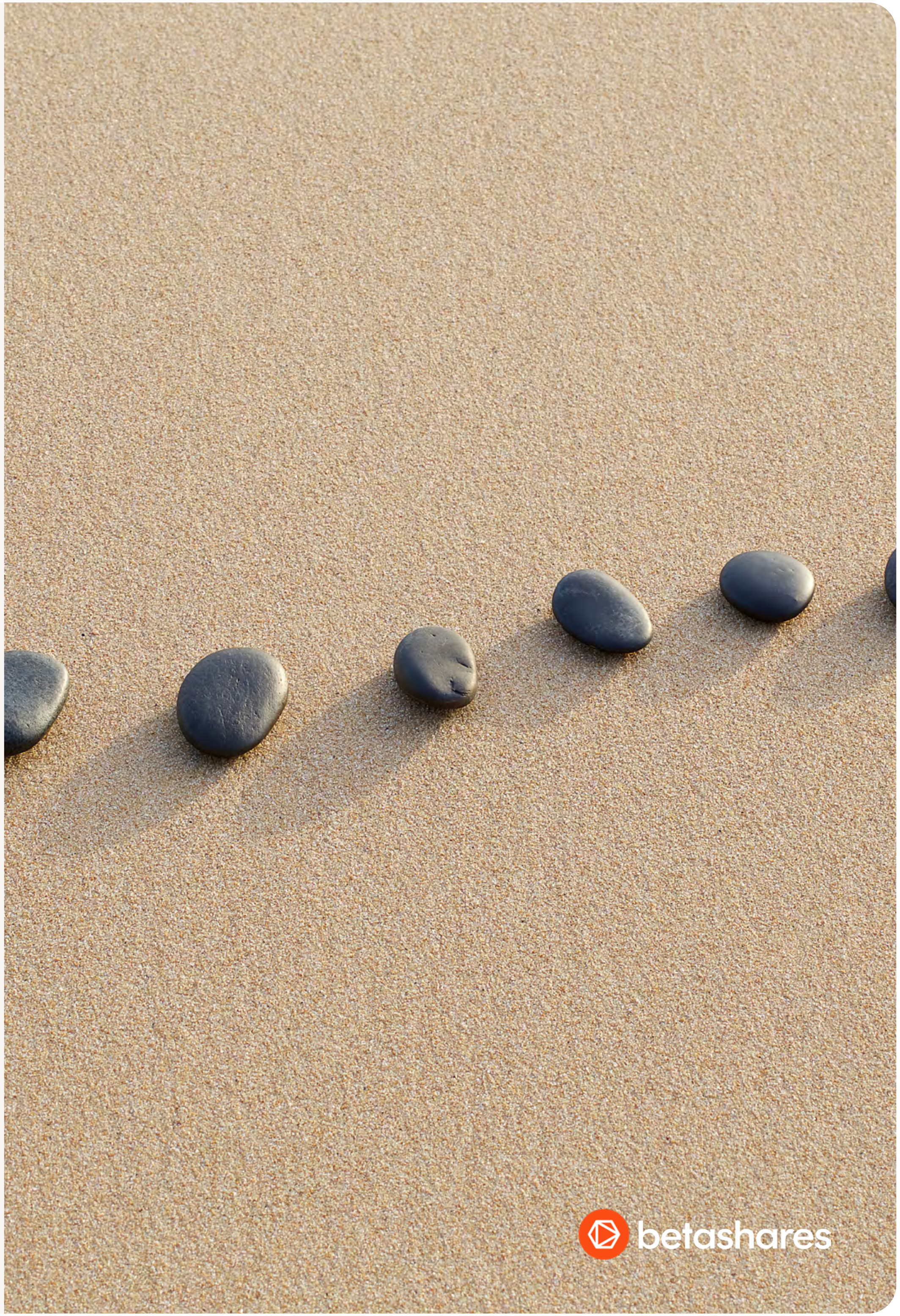
In early 2025, Roche announced changes to its global diversity, equity and inclusion (DEI) approach in response to recent changes in the US regulatory environment. Reporting indicated that Roche had stepped back from global diverse workforce targets and that the remit of its Chief Diversity Officers in the US and at its Basel headquarters would be re-scoped to focus on inclusion and belonging, with diversity no longer expressly part of the role. Roche indicated that the changes would apply globally, on the basis that global programmes could affect the compliance position of its US operations.

Workforce diversity is a material consideration under the ETHI methodology. Beyond regulatory compliance in any single jurisdiction, the willingness of a global company to maintain measurable diversity commitments is a relevant indicator of governance posture and of alignment with the responsible business conduct expectations of the fund.

On 18 April 2025, Betashares contacted Roche to request a meeting or written update on the changes to its DEI approach.

Roche responded that it was reviewing and adapting its global and US programmes to remain legally compliant, and that it remained committed to inclusion, belonging and valuing diversity of thought, perspectives and cultures. The company described the change as a reframing of its diversity approach from "achieving an inclusive environment through global leadership that mirrors our workforce" to "fostering an inclusive environment that inspires people to perform at their best." Roche characterised this as an ongoing evolution and declined to share further specifics, directing us to its forthcoming FY25 Sustainability Report.

We will continue to monitor developments.



Case study: Woolworths Group - Environmental and Social Risk

Sector: Consumer Staples

Fund: FAIR

Outcome: Ongoing engagement

Betashares maintains ongoing controversy monitoring across portfolio holdings, drawing on a range of inputs including ESG data providers, media coverage, NGO reporting and stakeholder signals. In the case of Woolworths Group, this approach identified an emerging issue that had not yet surfaced through mainstream financial media channels.

The matter concerned a proposed retail development at Kincumber on the New South Wales Central Coast. The site, owned by the Darkinjung Local Aboriginal Land Council (DLALC), was the subject of early-stage discussions with Woolworths Group regarding a possible lease for a new supermarket. Community groups and environmental advocates raised concerns about potential impacts on adjacent wetlands, biodiversity values and threatened species in the area.

The matter was identified through our monthly compliance and ESG monitoring process in August 2025 and escalated to the Responsible Investment Committee during the FAIR rebalance in September 2025. Given the nature of the concerns, and the relevance to Woolworths Group's stated commitments on responsible stewardship of natural resources, the RIC recommended direct engagement.

We contacted Woolworths Group in October 2025 to seek clarification on the status of the proposal, how environmental risks were being assessed, and how the development aligned with the company's environmental commitments. A follow-up was sent in January 2026, with a formal response received in March 2026.

Woolworths Group clarified that the proposal remained at an early stage, that no development application had been lodged, and that land use decisions ultimately rested with DLALC as landowner. The company indicated that any proposal would be subject to standard planning, consultation and environmental assessment processes, including public exhibition.

The case illustrates how our stewardship process operates end-to-end: monitoring across diverse data sources, assessment of materiality through the RIC, direct engagement to seek clarification and alignment with stated commitments, and continued oversight as the matter develops. We will continue to monitor developments.

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Case study: New Zealand Companies - Climate Change

Companies: Auckland International Airport (AIA); Fisher & Paykel Healthcare (FPH)

Fund: Betashares New Zealand Sustainability Leaders

Outcome: Initial engagement complete; follow-up and ongoing monitoring

In September 2025, Betashares undertook site visits to two of the largest holdings in the Betashares New Zealand Sustainability Leaders PIE Fund. The purpose was to introduce Betashares as an investor and to develop a deeper understanding of each company's approach to climate change. Both meetings were held in Auckland with senior management.

Climate-related financial disclosure was the central theme. Both companies report against the New Zealand Climate Standards and have established Science Based Targets initiative (SBTi) commitments.

For Auckland Airport, operational emissions are comparatively small and reducing, with Scope 1 down 19% on FY19 levels. The substantive challenge sits in Scope 3, which represents the overwhelming majority of total emissions and rose year-on-year. SBTi targets do not currently cover Scope 3, reflecting in part SBTi's continued treatment of aviation as a sector under development. We discussed the company's reliance on renewable energy certificates pending a power purchase agreement, and pressed on the integrity criteria applied. The responses on this point were not as developed as we would expect and will be a focus of follow-up engagement.

For Fisher & Paykel Healthcare, the company's Scope 3 SBTi target, which required 87% of suppliers to have an SBTi commitment, has not been achieved. FPH indicated a preference for future Scope 3 frameworks that distinguish between emissions the company can control, can influence, and cannot influence. We will continue to engage on the pathway to a revised and achievable Scope 3 target.

We remain comfortable with both holdings in the fund. We plan to continue our engagement with both companies and monitor developments.

Case study: Dexus - Climate Transition

Sector: Real Estate (A-REIT)

Outcome: Ongoing engagement

In March 2025, Betashares met with Dexus management in Sydney, including the Head of Sustainability and the General Manager for Climate, Energy and Transactions. The meeting followed earlier engagement with the Board on remuneration and was framed as a structured discussion of the company's climate transition approach.

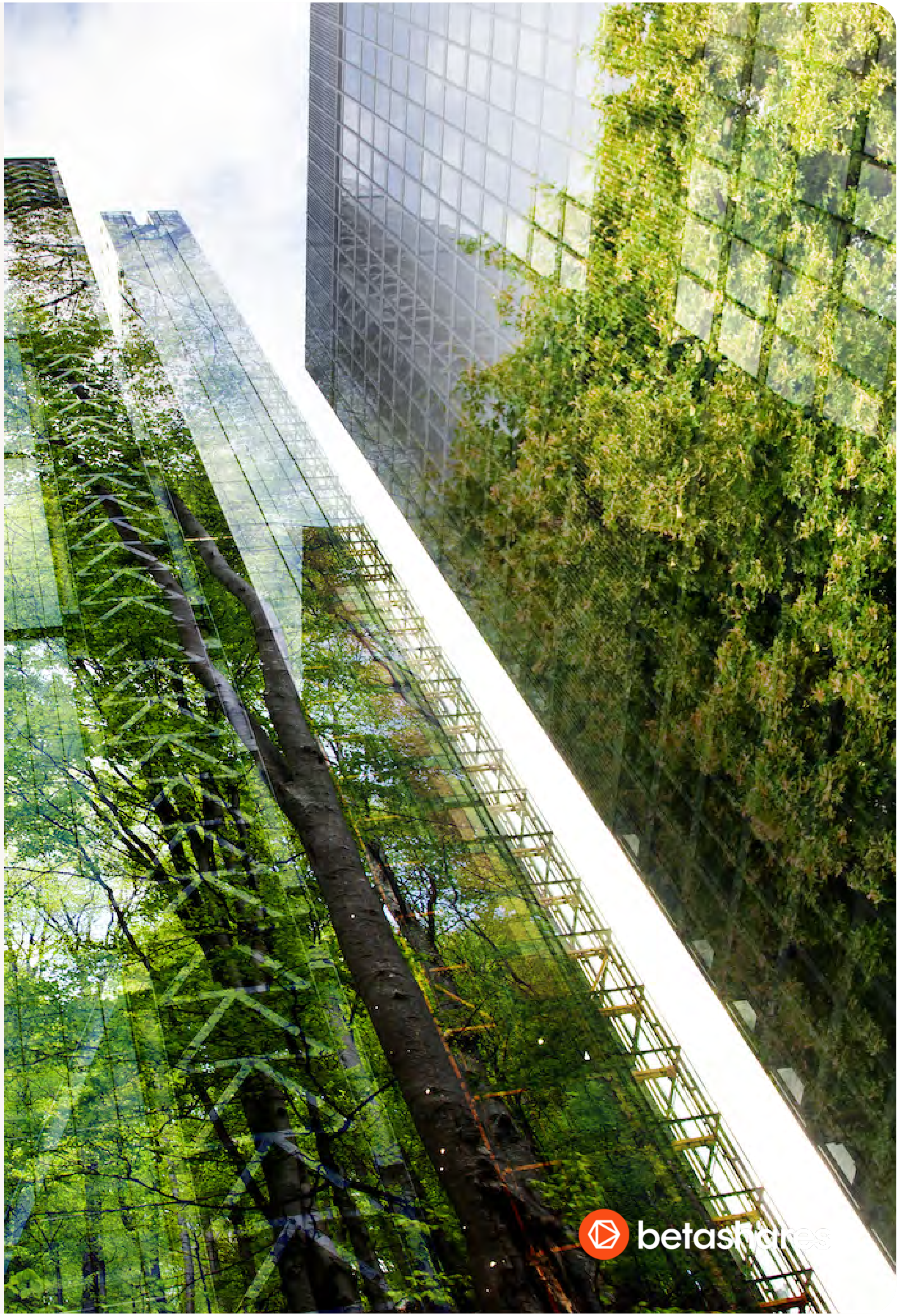
We raised four specific areas: progress against FY25 energy and water intensity commitments, the next iteration of the Climate Transition Action Plan (CTAP), the company's reliance on carbon offsets, and exposure to fossil fuel assets through the partial ownership of PowerCo NZ acquired with AMP's infrastructure business.

On operational performance, Dexus reported it was ahead on water intensity targets and on track for energy intensity, with AI-driven energy optimisation and building upgrades supporting progress. The updated CTAP was indicated for publication in mid-2025, with quarterly Board Sustainability Committee oversight involving cross-committee engagement with risk and compliance.

On carbon offsets, Dexus characterised offsets as a tool of last resort, with a focus on high-quality units and a stated pathway to reducing reliance over time. We pressed on the proportion of emission reduction attributable to offsets and will continue to engage as the updated CTAP is published.

On PowerCo NZ, Dexus disclosed that approximately 13% of the asset base sits in gas, with the balance in renewables, and committed to sharing further detail on PowerCo's revenue breakdown and net-zero pathway.

We will review the updated CTAP on publication, including its treatment of Scope 3 and offset reliance, and continue to engage on the strategic alignment of fossil fuel exposure within the portfolio.



10 Voting

Our approach to proxy voting

We undertake proxy voting across the majority of our equity funds, with the exception of products where small fund size makes the operational cost uneconomical.

For ETHI, FAIR, NZSL and ERTH, our policy is to vote on ESG-related shareholder resolutions in a manner consistent with the values embodied in each fund's index methodology.

The themes we supported in 2025 broadly fell into four areas:

Climate and environment: climate transition plans, Paris-aligned emissions disclosure, just transition reporting, biodiversity assessment, and plastic reduction.

Human capital and social: DEI reporting, pay disparity, paid parental leave, racial equity audits, human rights due diligence, and child labour in supply chains.

Governance and shareholder rights: independent board chair, board declassification, simple majority voting, severance agreement votes, and lower thresholds for shareholders to call special meetings.

Corporate conduct and transparency: lobbying and political contribution disclosure, ethical AI use, and reporting on product-related harms.

The table below sets out our voting record for shareholder resolutions in 2025, including the rationale for each decision. Betashares publishes a full listing of all proxies voted at the end of each financial year.

* There is no direct voting activity within HETH or the Diversified funds since these funds do not hold equities directly, rather they invest in FAIR, ETHI and GBND as relevant. Similarly, voting is a right that attaches to equity ownership, so GBND (which holds bonds) does not participate in shareholder voting activities.

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Betashares ESG-Related Shareholder Resolutions Report – year ending December 2025

Betashares Global Sustainability Leaders ETF (ASX: ETHI)

Betashares Australian Sustainability Leaders ETF (ASX: FAIR)

Betashares Climate Change Innovation ETF (ASX: ERTH)

This report summarises the proxy voting record for the named funds in relation to ESG-related resolutions only.

Company Name	Ticker	Meeting Date	Proposal Text	Management Recommendation	Vote Instruction	Voting Rationale
AbbVie Inc.	ABBV	09-May-25	Adopt Simple Majority Vote	Against	For	A vote FOR is warranted as the elimination of supermajority vote requirements would improve shareholder rights.
Acuity Brands, Inc.	AYI	22-Jan-25	Adopt Director Election Resignation Bylaw	Against	Against	A vote AGAINST is warranted. There are no recurring issues regarding failed director elections that would suggest the proposed policy is needed.
Adobe Inc.	ADBE	22-Apr-25	Submit Severance Agreement to Shareholder Vote	Against	For	A vote FOR is warranted. Although current severance arrangements are reasonable, the company lacks a disclosed policy capping additional cash severance or requiring shareholder approval for excessive payments. The proposed policy would address this gap.
Airbnb, Inc.	ABNB	04-Jun-25	Disclosure of Voting Results Based on Class of Shares	Against	For	A vote FOR is warranted. Differentiating voting results on a per-class basis could help facilitate improved board accountability.
Albemarle Corporation	ALB	06-May-25	Adopt Simple Majority Vote	Against	For	A vote FOR is warranted as the elimination of supermajority vote requirements would improve shareholder rights.
Align Technology, Inc.	ALGN	21-May-25	Provide Right to Call a Special Meeting at a 10 Percent Ownership Threshold	Against	For	A vote FOR is warranted as the right to call special meetings at a 10 percent ownership threshold would enhance shareholder rights.
American Express Company	AXP	29-Apr-25	Revisit Pay Incentives for Diversity, Equity, and Inclusion Goals	Against	Against	A vote AGAINST is warranted. The committee has made adjustments to the annual incentive that appear to address the proponent's concerns.
American Express Company	AXP	29-Apr-25	Report on Risks Related to Discrimination Against Individuals Including Religious/Political Views	Against	Against	A vote AGAINST is warranted. The company already discloses its commitments to non-discrimination, ethical practices, fair competition, and legal compliance, and provides information on board oversight of the relevant risks cited by the proponent.

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Company Name	Ticker	Meeting Date	Proposal Text	Management Recommendation	Vote Instruction	Voting Rationale
Apple Inc.	AAPL	25-Feb-25	Report on Ethical AI Data Acquisition and Usage	Against	For	A vote FOR is warranted, as improved transparency would provide shareholders the ability to evaluate the benefits and risks associated with the company's use of external data in the development of its artificial intelligence (AI) projects.
Apple Inc.	AAPL	25-Feb-25	Consider Abolishing DEI Policies, Programs, Departments, and Goals	Against	Against	A vote AGAINST is warranted. The company provides sufficient disclosures on diversity and inclusion, including non-discrimination policies and board and management oversight of associated risks. There are no apparent controversies regarding discriminatory employee diversity initiatives at the company.
Apple Inc.	AAPL	25-Feb-25	Report on Discrimination in Charitable Contributions	Against	Against	A vote AGAINST is warranted. Absent self-dealing or gross negligence, management should be afforded discretion in determining the company's charitable giving strategy.
Arch Capital Group Ltd.	ACGL	07-May-25	Report on Effectiveness of Diversity, Equity, and Inclusion Efforts	Against	For	A vote FOR is warranted, as shareholders would benefit from further disclosure regarding the effectiveness of the company's inclusive hiring efforts and initiatives.
Avery Dennison Corporation	AVY	24-Apr-25	Submit Severance Agreement to Shareholder Vote	Against	Against	A vote AGAINST is warranted. The company recently enhanced its severance policies, ensuring that any future cash severance arrangements will not exceed market norms absent shareholder approval.
BCE Inc.	BCE	08-May-25	SP 1: Disclosure of Language Fluency of Employees	Against	Against	A vote AGAINST is warranted. The proposal lacks investor materiality, creates operational and privacy burdens, and is driven by a specific political agenda rather than a genuine ESG data gap.
BCE Inc.	BCE	08-May-25	SP 2: Hold Annual Meetings of the Company in Person with Virtual Meetings as Complements	Against	For	A vote FOR is warranted. Virtual-only meetings risk hindering meaningful shareholder-management exchanges, enabling avoidance of difficult questions, marginalising certain shareholders, and eroding shareholder rights.
BCE Inc.	BCE	08-May-25	SP 3: Adopt Advanced Generative AI Systems Voluntary Code of Conduct	Against	For	A vote FOR is warranted. Adherence to the Voluntary Code of Conduct would ensure the company is managing AI-related risks and positioning itself for potential regulatory changes.
Best Buy Co., Inc.	BBY	13-Jun-25	Provide Right to Act by Written Consent	Against	Against	A vote AGAINST is warranted. The company's existing governance practices, which are generally robust, provide an effective counterbalance to the absence of a meaningful right to act by written consent.
Best Buy Co., Inc.	BBY	13-Jun-25	Consider Ending Participation in Human Rights Campaign Corporate Equality Index	Against	Against	A vote AGAINST is warranted. The company appears to provide shareholders with sufficient information to evaluate its oversight of the risks associated with its participation in and engagement with certain organisations.

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Best Buy Co., Inc.	BBY	13-Jun-25	Report on LGBTQIA+ Inclusion Efforts	Against	For	A vote FOR is warranted, as the proposal aligns with the company's existing DEI efforts and would allow shareholders to better assess the company's human capital management strategy.
Best Buy Co., Inc.	BBY	13-Jun-25	Publish Climate Transition Plan	Against	For	A vote FOR is warranted, as enhanced disclosure would provide shareholders with greater clarity in assessing the effectiveness of the company's policies and strategies for climate-related risks.
Bio-Rad Laboratories, Inc.	BIO	22-Apr-25	Submit Severance Agreement to Shareholder Vote	Against	For	A vote FOR is warranted. Although current severance arrangements are reasonable, the company lacks a disclosed policy capping additional cash severance payments or requiring shareholder approval for excessive payments. The proposed policy would ensure such shareholder protections.
Booking Holdings Inc.	BKNG	03-Jun-25	Reduce Ownership Threshold for Shareholders to Call Special Meeting	Against	For	A vote FOR is warranted as the proposed 10 percent ownership threshold to call a special meeting would enhance shareholders' ability to utilise the right, and the likelihood of its abuse is considered low.
BorgWarner Inc.	BWA	30-Apr-25	Amend Right to Call Special Meeting	Against	Against	A vote AGAINST is warranted. The one-year holding period is not especially problematic and provides a reasonable safeguard against abuse of the right.
Bristol-Myers Squibb Company	BMY	06-May-25	Establish a Board Committee on Corporate Financial Sustainability	Against	Against	A vote AGAINST is warranted. Absent clear governance failures, the board is generally given latitude to determine its committee structure.
Bristol-Myers Squibb Company	BMY	06-May-25	Consider Abolishing DEI Goals	Against	Against	A vote AGAINST is warranted. The company provides sufficient disclosures on diversity and inclusion for shareholders to evaluate the relevant programmes and policies. There are no apparent controversies related to employee diversity initiatives discriminating against employee groups at the company.
Capital One Financial Corporation	COF	08-May-25	Submit Severance Agreement to Shareholder Vote	Against	For	A vote FOR is warranted. Although current severance arrangements are reasonable, the company lacks a disclosed policy requiring shareholder ratification of cash severance arrangements that exceed market norms. The proposed policy would provide an additional safeguard for shareholders.
CDW Corporation	CDW	20-May-25	Provide Right to Act by Written Consent	Against	For	A vote FOR is warranted given that the ability to act by written consent would enhance shareholder rights.
Centene Corporation	CNC	13-May-25	Report on Efforts to Reduce GHG Emissions in Alignment with Paris Agreement Goal	Against	For	A vote FOR is warranted. Additional disclosure on the company's GHG emission reduction targets and climate transition plan would help shareholders better evaluate the company's transition strategy and management of related risks and opportunities.

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Company Name	Ticker	Meeting Date	Proposal Text	Management Recommendation	Vote Instruction	Voting Rationale
Centene Corporation	CNC	13-May-25	Report on Climate Risk in Retirement Plan Options	Against	For	A vote FOR is warranted. While the company offers a responsible investment option to employees, it is unclear how well employees understand the available retirement plans. The requested report would complement the company's existing climate commitments and allow shareholders to better evaluate related strategies and risks.
Cognizant Technology Solutions Corporation	CTSH	03-Jun-25	Amend Right to Call Special Meeting	Against	Against	A vote AGAINST is warranted. The one-year holding period is not especially problematic and provides a reasonable safeguard against abuse of the special meeting right.
Comcast Corporation	CMCSA	18-Jun-25	Improve Executive Compensation Program and Policy	Against	For	A vote FOR is warranted. Including the CEO pay ratio as a guiding principle of executive compensation could allow for more informed assessments by investors of whether the company's executive pay practices are reasonable, fair, and aligned with shareholders' long-term interests.
Comcast Corporation	CMCSA	18-Jun-25	Require Independent Board Chair	Against	For	A vote FOR is warranted given the importance of having an independent chairman of the board.
CoStar Group, Inc.	CSGP	26-Jun-25	Report on Political Contributions	Against	For	A vote FOR is warranted. Additional disclosure would help shareholders more fully evaluate the company's use of corporate funds in the political process and its management of related activities.
CVS Health Corporation	CVS	15-May-25	Reduce Ownership Threshold for Shareholders to Request Action by Written Consent	Against	For	A vote FOR is warranted. A reduction in the ownership threshold would provide a more meaningful written consent right for shareholders.
Elevance Health, Inc.	ELV	14-May-25	Report on Effectiveness of Diversity, Equity, and Inclusion Efforts	Against	For	A vote FOR is warranted as enhanced disclosure would allow shareholders to better assess the effectiveness of the company's diversity initiatives, inclusive hiring efforts, and management of related risks.
First Solar, Inc.	FSLR	14-May-25	Amend Right to Call Special Meeting	Against	Against	A vote AGAINST is warranted. The one-year holding period is not especially problematic, is consistent with SEC requirements for filing shareholder proposals, and provides a reasonable safeguard against abuse of the right.
Ford Motor Company	F	08-May-25	Report on Efforts to Reduce GHG Emissions in Alignment with Net Zero Goals	Against	For	A vote FOR is warranted, as additional information on the company's efforts to include all material Scope 3 emissions in its net zero by 2050 goals would help investors better understand how the company is managing full value chain emissions and mitigating climate-related risks.
G8 Education Limited	GEM	29-Apr-25	Approve Paid Parental Leave	Against	For	A vote FOR is warranted. Adopting a paid parental leave policy would benefit the company by improving its image, mitigating brand risk, and enhancing the competitiveness of its compensation package to retain and attract talent, as well as demonstrating its commitment to gender equality.

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Genuine Parts Company	GPC	28-Apr-25	Report on Effectiveness of Diversity Equity and Inclusion Efforts and Metrics	Against	For	A vote FOR is warranted, as shareholders would benefit from further disclosure on the effectiveness of the company's inclusive hiring efforts and workforce demographic data to better understand its management of diversity, equity, and inclusion.
Gilead Sciences, Inc.	GILD	07-May-25	Report on Pay Disparity	Against	For	A vote FOR is warranted, as excessive pay disparities could pose risks to long-term shareholder value and negatively impact employee morale and the company's reputation. Incorporating the CEO pay ratio into executive compensation decisions could allow shareholders to make a more informed evaluation.
Gilead Sciences, Inc.	GILD	07-May-25	Require Independent Board Chair	Against	For	A vote FOR is warranted given the importance of having an independent chairman of the board.
Gilead Sciences, Inc.	GILD	07-May-25	Adopt Comprehensive Human Rights Policy and Human Rights Due Diligence Process	Against	For	A vote FOR is warranted. In light of recent significant controversies, and given that the company identifies access to its medications as one of its most material ESG factors, adopting a comprehensive human rights policy covering its own operations and conducting human rights due diligence appears prudent.
Gilead Sciences, Inc.	GILD	07-May-25	Report on the Risks of DEI Practices for Contractors	Against	Against	A vote AGAINST is warranted. The company discloses several mechanisms for evaluating and mitigating supply chain risks, including a recently implemented multifactor methodology and framework, as well as its enterprise risk management programme and the board and management's role in relation to ERM.
Hologic Inc.	HOLX	26-Feb-25	Adopt Simple Majority Vote	None	For	A vote FOR is warranted given that the elimination of supermajority requirements would improve shareholder rights.
HubSpot, Inc.	HUBS	04-Jun-25	Adopt Simple Majority Vote	Against	For	A vote FOR is warranted as lowering approval requirements would improve shareholder rights.
IDEXX Laboratories, Inc.	IDXX	07-May-25	Declassify the Board of Directors	None	For	A vote FOR is warranted as board declassification would enhance board accountability.
Illinois Tool Works Inc.	ITW	02-May-25	Submit Severance Agreement to Shareholder Vote	Against	For	A vote FOR is warranted. Although current severance arrangements are reasonable, the company lacks a disclosed policy requiring shareholder ratification of cash severance arrangements that exceed market norms. The proposed policy would provide an additional safeguard for shareholders.
Keysight Technologies, Inc.	KEYS	20-Mar-25	Declassify the Board of Directors	Against	For	A vote FOR declassifying the Board of Directors (Item 4) is warranted as it would enhance board accountability to shareholders.
LKQ Corporation	LKQ	07-May-25	Provide Right to Call a Special Meeting at a 10 Percent Ownership Threshold	None	For	A vote FOR is warranted as the right to call a special meeting would enhance shareholder rights.

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Marvell Technology, Inc.	MRVL	13-Jun-25	Require Independent Board Chair	Against	For	A vote FOR is warranted given the importance of having an independent chair of the board.
Mastercard Incorporated	MA	24-Jun-25	Oversee and Report on a Racial Equity Audit	Against	For	A vote FOR is warranted. While Mastercard has made progress on diversity, equity, and inclusion, a third-party racial equity audit would enhance transparency and help identify opportunities for improvement, supporting the company's long-term commitment to building an inclusive and sustainable digital economy.
Mastercard Incorporated	MA	24-Jun-25	Report on Discrimination Risks of Affirmative Action Initiatives	Against	Against	A vote AGAINST is warranted. The company maintains clear prohibitions against discrimination based on personal characteristics, including race, and requires that employment-related decisions be based on job qualifications and performance. The company has also established relevant board-level oversight of related risks.
Mediobanca Banca di Credito Finanziario SpA	MB	28-Oct-25	Fix Number of Directors	None	For	A vote FOR is warranted as the proposed board size has been disclosed and no concerns have been identified.
Mediobanca Banca di Credito Finanziario SpA	MB	28-Oct-25	Slate Submitted by Banca Monte Dei Paschi di Siena SpA	None	For	This slate warrants a vote FOR in the absence of substantive concerns regarding the proposed candidates.
Mediobanca Banca di Credito Finanziario SpA	MB	28-Oct-25	Approve Remuneration of Directors	None	For	This item warrants a vote FOR as the proposed director remuneration has been disclosed and no material concerns have been identified.
Mediobanca Banca di Credito Finanziario SpA	MB	28-Oct-25	Appoint PricewaterhouseCoopers SpA as External Auditors and Auditors for Sustainability Reporting	None	For	This resolution warrants a vote FOR as full disclosure has been provided and no material concerns have been identified.
Molina Healthcare, Inc.	MOH	30-Apr-25	Provide Right to Call a Special Meeting at a 10 Percent Ownership Threshold	Against	For	A vote FOR is warranted as the right to call a special meeting would enhance shareholder rights.
Monolithic Power Systems, Inc.	MPWR	12-Jun-25	Reduce Ownership Threshold for Shareholders to Call Special Meeting	Against	For	A vote FOR is warranted, as the proposed 10 percent ownership threshold for shareholders to call a special meeting would enhance shareholders' ability to utilise the right. Additionally, an affirmative vote may signal support for modifying certain board-imposed restrictions on special meeting timing and subject matter, which may otherwise hinder the effectiveness of the right.

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Company Name	Ticker	Meeting Date	Proposal Text	Management Recommendation	Vote Instruction	Voting Rationale
NetApp, Inc.	NTAP	10-Sep-25	Amend Right to Call Special Meeting	Against	Against	A vote AGAINST is warranted. The one-year holding period is not especially problematic and provides a reasonable safeguard against abuse of the right.
Nordea Bank Abp	NDA.FI	20-Mar-25	Approve Business Activities in Line with the Paris Agreement	Against	Against	A vote AGAINST is warranted as agreeing to include the proponents' requested new article in the articles of association would hinder the bank's flexibility to execute its sustainable strategy and its ability to incentivise fossil fuel companies to alter their strategies.
Novo Nordisk A/S	NOVO.B	14-Nov-25	Elect Lars Rebien Sorensen (Chair) as New Director	None	Abstain	A vote to ABSTAIN on all candidates is warranted. The foundation's proposal is not accompanied by a compelling case for replacing the entire board, nor does it explain how the proposed candidates are better suited to oversee strategy execution. The proposed board overhaul also raises several governance concerns, particularly regarding the non-transparent process and unilateral intervention by the controlling shareholder, resulting in non-independent board leadership.
Novo Nordisk A/S	NOVO.B	14-Nov-25	Elect Cees de Jong (Vice Chair) as New Director	None	Abstain	A vote to ABSTAIN on all candidates is warranted. The foundation's proposal is not accompanied by a compelling case for replacing the entire board, nor does it explain how the proposed candidates are better suited to oversee strategy execution. The proposed board overhaul also raises several governance concerns, particularly regarding the non-transparent process and unilateral intervention by the controlling shareholder, resulting in non-independent board leadership.
Novo Nordisk A/S	NOVO.B	14-Nov-25	Elect Britt Meelby Jensen as New Director	None	Abstain	A vote to ABSTAIN on all candidates is warranted. The foundation's proposal is not accompanied by a compelling case for replacing the entire board, nor does it explain how the proposed candidates are better suited to oversee strategy execution. The proposed board overhaul also raises several governance concerns, particularly regarding the non-transparent process and unilateral intervention by the controlling shareholder, resulting in non-independent board leadership.
Novo Nordisk A/S	NOVO.B	14-Nov-25	Elect Mikael Dolsten as New Director	None	Abstain	A vote to ABSTAIN on all candidates is warranted. The foundation's proposal is not accompanied by a compelling case for replacing the entire board, nor does it explain how the proposed candidates are better suited to oversee strategy execution. The proposed board overhaul also raises several governance concerns, particularly regarding the non-transparent process and unilateral intervention by the controlling shareholder, resulting in non-independent board leadership.

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Novo Nordisk A/S	NOVO.B	14-Nov-25	Elect Stephan Engels as New Director	None	Abstain	A vote to ABSTAIN on all candidates is warranted. The foundation's proposal is not accompanied by a compelling case for replacing the entire board, nor does it explain how the proposed candidates are better suited to oversee strategy execution. The proposed board overhaul also raises several governance concerns, particularly regarding the non-transparent process and unilateral intervention by the controlling shareholder, resulting in non-independent board leadership.
NVIDIA Corporation	NVDA	25-Jun-25	Amend Right to Call Special Meeting	Against	Against	A vote AGAINST is warranted. The one-year holding period is not especially problematic and no compelling reason to support this proposal has been identified.
NVIDIA Corporation	NVDA	25-Jun-25	Amend Bylaws to Adopt a New Director Election Resignation Governance Guideline	Against	Against	A vote AGAINST is warranted as there are no recurring issues or company-specific factors that suggest the proponent's more stringent director resignation policy is necessary at this time.
NVIDIA Corporation	NVDA	25-Jun-25	Enhance Workforce Data Reporting	Against	For	A vote FOR is warranted, as additional diversity-related disclosures would allow shareholders to better assess the effectiveness of the company's diversity initiatives and its management of related risks.
Omnicom Group Inc.	OMC	06-May-25	Require Independent Board Chair	Against	For	A vote FOR is warranted given the importance of having an independent chairman of the board.
Otis Worldwide Corporation	OTIS	15-May-25	Report on Political Contributions and Expenditures	Against	For	A vote FOR is warranted. The company's disclosures on direct and indirect political contributions are limited. It is unclear whether political activities are administered exclusively through its PAC or whether the company makes separate contributions, whether the disclosed list of membership associations is comprehensive, or what dues are paid to each organisation.
PayPal Holdings, Inc.	PYPL	05-Jun-25	Report on Discrimination in Charitable Contributions	Against	Against	A vote AGAINST is warranted. The company provides sufficient disclosure on the oversight and management of its charitable contribution programmes, including relevant guidelines and a stated commitment to applying those guidelines without regard to political or religious considerations.
PayPal Holdings, Inc.	PYPL	05-Jun-25	Reduce Ownership Threshold for Shareholders to Call Special Meeting to 10%	Against	For	A vote FOR is warranted. Lowering the threshold to call a special meeting would enhance the existing shareholder right.
Pfizer Inc.	PFE	24-Apr-25	Submit Severance Agreement to Shareholder Vote	Against	Against	A vote AGAINST is warranted. The company maintains a policy requiring shareholder approval of severance payments that exceed market norms. The company's severance arrangements are reasonable and no recent severance controversies have been identified.

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Pfizer Inc.	PFE	24-Apr-25	Report on Risks Related to Discrimination Against Individuals Including Religious/Political Views	Against	Against	A vote AGAINST is warranted. The company provides adequate disclosure relating to its anti-discrimination policies.
Prologis, Inc.	PLD	08-May-25	Reduce Ownership Threshold for Shareholders to Call Special Meeting	Against	For	A vote FOR is warranted as the right to call special meetings at a 10 percent ownership threshold would enhance shareholder rights.
Quest Diagnostics Incorporated	DGX	15-May-25	Amend Right to Call Special Meeting	Against	Against	A vote AGAINST is warranted. The one-year holding period is not especially problematic, is consistent with SEC requirements for filing shareholder proposals, and provides a reasonable safeguard against abuse of the right.
Revvity, Inc.	RVTY	22-Apr-25	Reduce Ownership Threshold for Shareholders to Call Special Meeting	Against	For	A vote FOR is warranted as the proposed 10 percent ownership threshold to call a special meeting would enhance shareholders' ability to utilise the right, and the likelihood of its abuse is considered low.
ServiceNow, Inc.	NOW	22-May-25	Amend Bylaws Regarding Right to Cure Purported Nomination Defects	Against	Against	A vote AGAINST is warranted as the proponent has not provided a compelling argument that the proposed policy would materially protect or improve shareholders' rights.
ServiceNow, Inc.	NOW	22-May-25	Amend Right to Call Special Meeting	Against	Against	A vote AGAINST is warranted. The one-year holding period is not especially problematic and provides a reasonable safeguard against abuse of the special meeting right.
Skandinaviska Enskilda Banken AB	SEB.A	01-Apr-25	Approve Proposal Regarding Improving Finance Sweden's Procedures for Issuing New BankID	None	Against	A vote AGAINST is warranted. The proposal lacks a compelling rationale and decisions of this nature are generally best left to management and the board.
Skandinaviska Enskilda Banken AB	SEB.A	01-Apr-25	Approve Proposal Regarding Improving the BankID Security	None	Against	A vote AGAINST is warranted. The proposal lacks a compelling rationale and decisions of this nature are generally best left to management and the board.
Skandinaviska Enskilda Banken AB	SEB.A	01-Apr-25	Instruct Board of Directors to Revise SEB Overall Strategy to be in Line with the Paris Agreement Goals	None	For	Although the company has made progress, a vote FOR is warranted as the proposed resolution would enhance the bank's fossil fuel policy and its net zero commitments, and help ensure stronger alignment between the bank's net zero goals and its policies and actions.
State Street Corporation	STT	14-May-25	Require Independent Board Chair	Against	For	A vote FOR is warranted given the importance of having an independent chairman of the board.

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State Street Corporation	STT	14-May-25	Report on "Just Transition"	Against	For	A vote FOR is warranted as greater disclosure on the company's just transition strategy would better position shareholders to evaluate related risks and opportunities.
Stryker Corporation	SYK	08-May-25	Report on Political Contributions and Expenditures	Against	For	A vote FOR is warranted, as enhanced disclosure of the company's direct and indirect political contributions through all trade associations and other tax-exempt organisations could help shareholders more comprehensively evaluate the company's management of related risks and benefits.
Suzano SA	SUZB3	25-Apr-25	Elect Eraldo Soares Pecanha as Fiscal Council Member and Kurt Janos Toth as Alternate Appointed by Minority Shareholder	None	For	A vote FOR is warranted because: the names of the fiscal council nominee and alternate appointed by minority shareholders have been disclosed; there is no indication of competing minority ordinary nominees; and there are no known concerns regarding the proposed minority nominees. Institutional shareholders should provide explicit voting instructions if they seek to elect a specific candidate.
Synopsys, Inc.	SNPS	10-Apr-25	Submit Severance Agreement to Shareholder Vote	Against	For	A vote FOR is warranted. Although the current severance basis is reasonable, the company lacks a disclosed policy capping additional cash severance payments or requiring shareholder approval for excessive payments. The proposed policy would ensure such shareholder protections.
T. Rowe Price Group, Inc.	TROW	08-May-25	Submit Severance Agreement to Shareholder Vote	Against	For	A vote FOR is warranted. Although current severance arrangements do not raise any concerns, the company lacks a disclosed policy capping additional cash severance payments or requiring shareholder approval for excessive payments. The proposed policy would ensure such shareholder protections.
Tesla, Inc.	TSLA	06-Nov-25	Authorize Board to Invest Company Funds in xAI	None	Against	A vote AGAINST is warranted. The proposal is non-binding and lacks specific terms, meaning shareholders do not know what type of investment they may be approving. Management and the board should be afforded the flexibility to make such decisions in line with their fiduciary duties and the company's policies.
Tesla, Inc.	TSLA	06-Nov-25	Assess Feasibility of Including Sustainability as a Performance Measure for Senior Executive Compensation	Against	For	A vote FOR is warranted. Incorporating sustainability performance measures into executive compensation would further incentivise executives to ensure that sustainability performance, alongside financial factors, is aligned with management's interests, the company's stated commitments to social responsibility, and long-term corporate strategy.
Tesla, Inc.	TSLA	06-Nov-25	Report on the Use of Child Labor in Connection with Electric Vehicles	Against	For	A vote FOR is warranted, as additional information on the company's efforts to eliminate child labour from its supply chain would allow investors to better understand how the company is managing human rights-related risks.
Tesla, Inc.	TSLA	06-Nov-25	Declassify the Board of Directors	Against	For	A vote FOR is warranted, as board declassification would improve director accountability to shareholders.

Note that the table above relates only to ESG-related resolutions. For a full report on all our voting activity during the year, please see the Betashares website.

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Company Name	Ticker	Meeting Date	Proposal Text	Management Recommendation	Vote Instruction	Voting Rationale
Tesla, Inc.	TSLA	06-Nov-25	Reduce Supermajority Vote Requirement	Against	For	A vote FOR is warranted, as eliminating supermajority vote requirements would improve shareholder rights.
Tesla, Inc.	TSLA	06-Nov-25	Require Shareholder Approval of Bylaw Amendments Adopted by the Board of Directors	Against	For	A vote FOR is warranted. Requiring the board to submit bylaw changes that would restrict the ability to submit shareholder proposals to a shareholder vote is not unreasonable or overly burdensome.
The Charles Schwab Corporation	SCHW	22-May-25	Declassify the Board of Directors	Against	For	A vote FOR is warranted as a declassified board would improve director accountability to shareholders.
The Hartford Insurance Group, Inc.	HIG	21-May-25	Reduce Ownership Threshold for Shareholders to Call Special Meeting	Against	For	A vote FOR this proposal is warranted as a lower ownership threshold to call a special meeting would improve shareholder rights.
The Home Depot, Inc.	HD	22-May-25	Require Independent Board Chair	Against	For	A vote FOR is warranted given the importance of having an independent chairman of the board.
The Home Depot, Inc.	HD	22-May-25	Disclose a Biodiversity Impact and Dependency Assessment	Against	For	A vote FOR is warranted, as further disclosure would help shareholders assess how the company is managing risks associated with deforestation and biodiversity loss and track progress on these issues.
The Home Depot, Inc.	HD	22-May-25	Report on Efforts to Reduce Plastic Use	Against	For	A vote FOR is warranted, as further assessment of the company's circularity efforts would provide valuable insights and help mitigate associated risks.
UnitedHealth Group Incorporated	UNH	02-Jun-25	Submit Severance Agreement to Shareholder Vote	Against	Against	A vote AGAINST is warranted. The company maintains a policy prohibiting cash severance payments in excess of 2.99 times base salary and target bonus. The company's severance arrangements are reasonable and no recent severance controversies have been identified.
Verisk Analytics, Inc.	VRSK	20-May-25	Provide Right to Call a Special Meeting at a 10 Percent Ownership Threshold	Against	For	A vote FOR is warranted. Relative to the management proposal in Item 7, the requested 10 percent ownership threshold to call a special meeting is viewed as more appropriate.
Vertex Pharmaceuticals Incorporated	VRTX	14-May-25	Submit Severance Agreement to Shareholder Vote	Against	For	A vote FOR is warranted. Although current severance arrangements are reasonable, the company lacks a disclosed policy capping additional cash severance payments or requiring shareholder approval for excessive payments. The proposed policy would ensure such shareholder protections.
Visa Inc.	V	28-Jan-25	Report on Gender-Based Compensation and Benefits Inequities	Against	Against	A vote AGAINST is warranted as the company appears to provide competitive health benefits and there is no evidence that healthcare is being offered in a discriminatory manner.

Note that the table above relates only to ESG-related resolutions. For a full report on all our voting activity during the year, please see the Betashares website.

Company Name	Ticker	Meeting Date	Proposal Text	Management Recommendation	Vote Instruction	Voting Rationale
Visa Inc.	V	28-Jan-25	Report on Company's Policy on Merchant Category Codes	Against	Against	A vote AGAINST is warranted because: the company appears to be taking appropriate action to mitigate risks associated with the potential implementation of a merchant category code for standalone gun and ammunition stores; and the requested report would unduly interfere with management's purview regarding the operation of its payment systems and compliance with legal responsibilities.
Visa Inc.	V	28-Jan-25	Amend Bylaws to Adopt a New Director Election Resignation Governance Guideline	Against	Against	A vote AGAINST is warranted as there are no recurring issues or company-specific factors at Visa that suggest the proponent's more stringent director resignation policy is necessary at this time.
Visa Inc.	V	28-Jan-25	Report on Lobbying Payments and Policy	Against	For	A vote FOR is warranted. Additional disclosure of dues paid to trade associations and the percentage of dues used for lobbying would better position shareholders to evaluate the alignment between the company's political efforts and stated goals.
Walgreens Boots Alliance, Inc.	WBA	30-Jan-25	Report on Cigarette Waste	Against	For	A vote FOR is warranted as shareholders would benefit from additional information regarding the company's policies and practices related to the environmental impact of tobacco product disposal.
Woolworths Group Limited	WOW	30-Oct-25	Approve Farmed Seafood Reporting	Against	For	A vote FOR is warranted. Although the company has improved its disclosure in the 2025 Sustainability Report, it does not appear to provide sufficient information about current risks and impacts of its farmed seafood, including on affected species.
Woolworths Group Limited	WOW	30-Oct-25	Approve Seafood Sourcing Policy	Against	For	A vote FOR is warranted, as the requested seafood sourcing policy would enhance the company's progress toward global best practices and assure stakeholders that the company is managing related risks, including biodiversity conservation and compliance with international regulations. The company notes that elements of its Seafood Sourcing Policy already align with the Conservation Alliance for Seafood Solutions framework, so the request should not be overly burdensome.
Woolworths Group Limited	WOW	30-Oct-25	Approve Classification of Beef	Against	For	A vote FOR is warranted. Although the company still classifies fresh beef as a primary deforestation-linked commodity under its no-deforestation goal, reclassifying beef as a high-risk commodity could strengthen the company's sustainability positioning and ensure continued alignment with its emissions reduction targets.

Note that the table above relates only to ESG-related resolutions. For a full report on all our voting activity during the year, please see the Betashares website.

Appendix A:

Ethical funds – negative screens

The negative screens applied to our ethical funds (ETHI, FAIR, GBND):

Industry/Activity	Exposure Limit Guidelines (% of total revenue)	Explanatory notes
Fossil Fuels - Direct	0%	Companies which have fossil fuel reserves, fossil fuel infrastructure, produce petrochemicals or are involved in the mining, extraction or burning of fossil fuels
Fossil Fuels - High Dependency (FAIR) / Indirect (ETHI)	5% for products and services. Excludes the largest global financers and insurers of fossil fuel companies, projects and infrastructure.	Industry sectors with very high use of fossil fuels (note: mining companies engaged in the extraction of critical minerals, as defined by Geoscience Australia, and companies with demonstrated use of sustainable business practices are exempt from this exclusion)
Fossil Fuels - Service Providers	5% for products and services	Companies which provide products or services which are specific to and significant for the fossil fuel industry
Fossil Fuels - Finance and Underwriting	Exclude the largest global financiers of fossil fuel companies, projects and infrastructure	Companies which provide lending to fossil fuel companies or otherwise provide significant financing to fossil fuel project or infrastructure
	Exclude the largest global insurers of fossil fuel companies, projects and infrastructure	Companies that provide significant insurance or re-insurance of fossil fuel companies or projects
Gambling	0% for casinos and manufacture of gaming products	
	5% for distribution of gambling products	
Tobacco	0% for production or manufacture	Includes e-cigarettes and other tobacco-based products.
	5% for sale of tobacco products	
Uranium and Nuclear Energy	5% for products and services to nuclear energy	

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Industry/Activity	Exposure Limit Guidelines (% of total revenue)	Explanatory notes
Armaments and Militarism	0% for manufacture of armaments and weapons 5% for specific and significant services to military and armaments manufacture	Includes nuclear weapons and other controversial weapons
Destruction of Valuable Environments	0%	Companies which have direct negative impact on recognised World Heritage and High Conservation areas
Animal Cruelty	0%	Companies involved in live animal export, animal testing for cosmetic purposes, factory farming, or controversial animal products (ivory, foie gras etc)
Chemicals of Concern	0%	Companies which produce or use chemicals of concern recognised by UN Environmental Program, producers of controversial agricultural chemicals
Mandatory Detention of Asylum Seekers	0%	Companies which operate detention centres or for-profit prisons
Alcohol	5% for production of alcohol 20% for sales of alcohol	
Junk Foods	33%	Companies which produce or sell junk foods
Pornography	0% for production of pornography 5% for sale of pornography	Companies which produce or sell pornography.
Fines and Convictions	n/a	Fines or convictions equal to or above $10 Million USD over the last 3 years
Human Rights	n/a	Evidence of human rights violations including child labour, forced labour, sweatshops, bribery and corruption.
Board diversity	n/a	No women on board of directors
Payday Lending (ETHI)/ Predatory lending (FAIR)	0%	Lending practices that impose unfair or abusive terms on borrowers.

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Appendix B: List of company engagements 2025

Apple Inc	La Poste
Asian Development Bank	LG Energy Solution
AstraZeneca	Renault
ASX Limited	Roche Holding AG
BP Limited	SparkNZ
Brambles Ltd	Stellantis NV
BYD Co Ltd	TELUS Corporation
Chorus	The Allstate Corporation
Commonwealth Bank of Australia	The Home Depot, Inc.
Cooperative Rabobank UA	Tourism Holdings Ltd
Dexus Ltd	Toyota Motor Corp
European Investment Bank	United Utilities Group Plc
Fisher & Paykel Healthcare	Verizon Communications
Fletcher Building Products	Westpac Banking Corp
Gen Digital Inc	Wisetech
International Finance Corp	Woodside Energy
KMD Brands	Woolworths Group Limited

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Submission to Treasury Consultation on Sustainable Investment Product Labels

Betashares response

Betashares is an Australian investment manager specialising in index ETFs. As of 30 June 2025, our AUM exceeded A$50 billion. We manage over $6 billion in ethical and responsible investment products, making us one of the largest investment managers of ethical and responsible investment products in Australia.

In this response, we draw from various sources as well as lived industry experience as a major provider of retail ethical and responsible investment products. We particularly note the following references:

1. Responsible Investment Association Australasia (RIAA), Certified Responsible Investment Standard Guidance Note P2, Product Labelling[1]
2. CFA Institute Research & Policy Center, How to Build a Better ESG Fund Classification System[2]

Question 1 - In the context of existing regulatory settings and disclosure requirements, what is the role for sustainable financial product labels?

We discuss the possible purposes below. We are of the view that the focus of any labelling regulation should be consumer protection and that it should not be seen as a mechanism to direct capital toward the government's sustainability goals.

Enhancing Clarity and Comparability for Investors

Current disclosure requirements under RG 65, RG 168, and ASIC's INFO 271 focus on general product disclosure and do not mandate a standardised approach to classifying ESG or sustainable funds or labelling requirements. Labels - if underpinned by observable and rigorously defined features - can help address ambiguity by clearly communicating to investors the types of assets that will, and will not, be held by the product.

Note that it is difficult to construct a single framework that covers the use of sustainability terms in product labels as well as classifies the different approaches to ethical and responsible investment. A labelling framework should focus on the use of sustainability terms in fund labels and/or sustainability claims made in the promotion of a financial product and the disclosures required to support the use of those terms/ claims. A framework that classifies the different approaches to ethical and responsible investment is also required for investors to have the clarity required to make informed comparisons between different products – but this will evolve over time and should be largely left to the industry to determine.

Supporting Greenwashing Enforcement

While ASIC has stepped up scrutiny of sustainability claims, the focus to date has been on breach of negative screens. While breach of negative screens is a serious issue, a more serious aspect of greenwashing is explicitly or implicitly promoting products as 'saving the planet' or 'making the world better', when the positive impact from these products is negligible at best. The lack of consistent fund categories and labelling criteria makes enforcement complex. Labels can help establish observable criteria and thresholds that distinguish types of ESG integration or impact objectives. This strengthens the regulator's ability to assess misleading claims, especially under s.1041H (Corporations Act – misleading or deceptive conduct).

Enabling Tailored Disclosure Obligations

Australia's current disclosure regime is general-purpose. Labels, used in conjunction with a classification system, could allow graduated disclosure requirements. For example:

- Funds categorised as 'Impact' would need to publish evidence of progress toward stated social or environmental outcomes
- Funds categorised as 'ESG integration' may only need to disclose how ESG factors inform investment analysis

This allows proportional regulation without burdening all funds equally.

Align Market Practice with Global Standards

We will not overemphasise the benefit of aligning domestic market practice with overseas standards as we believe (as noted in the CFA paper) current ESG fund labelling and classification systems in the EU (SFDR), and UK (SDR) have substantial shortcomings and vary in their logic and scope. Lessons can be learnt from the UK and EU experience. A well-designed label regime in Australia could:

- reduce confusion about fund types,
- improve cross-border comparability, and
- help global investors navigate Australian offerings

[1]https://cdn.prod.website-files.com/67a17dcc2362afe3723b9c67/6833d47f4e29871770d6479e_Guidance%20Note%20-%20Product%20labelling.pdf
[2]https://rpc.cfainstitute.org/sites/default/files/-/media/documents/article/industry-research/esg-fund-classification.pdf

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Facilitating Capital Allocation Consistent with Government Policy Objectives

It has been suggested that clear product labels can guide capital toward funds with objectives consistent with government sustainable policy objectives. Embedding policy objectives in labelling regulation risks undermining trust and compromising the actual or perceived objectivity of market participants. We advocate for alternative policy measures, such as sector-specific transition roadmaps, elimination of fossil fuel subsidies, and tax and investment incentives for sustainable infrastructure, clean technology, and nature-positive projects.

Conclusion

In Australia's current regulatory context - where disclosure expectations exist but consistent responsible investment fund classifications do not - sustainable financial product labels can provide clarity, discipline, and alignment. If grounded in observable features and rigorous logic, they can enhance investor confidence, curb greenwashing, and improve alignment between products and investor expectations.

Question 2 - Should any new requirements apply to all financial products that make a claim or state a sustainability or similar objective other than, or in addition to, maximising financial returns?

Any product that makes a sustainability claim in addition to statements relating to financial returns should be subject to regulation which requires the responsible entity to explain why the term is being used and how the product's investment strategy and asset holdings are consistent with those terms. This should apply whether the term is used in the product label or not. Products that do not make sustainability claims should not be subject to regulation, other than a requirement to state in unambiguous terms that no sustainability claims are being made. Products that state that they do not make sustainability claims should not use sustainability terms in their PDS or marketing materials.

Question 3 - What aspects of international regimes should the Government consider for Australian application?

a. Is there merit in incorporating additional rules around the type of information required to be disclosed to consumers about sustainability characteristics, similar to the UK's consumer-facing disclosures requirement?

The focus should be on the use of sustainability claims and the requirement to evidence those claims. In this respect we recommend measures similar to the ESMA Guidelines on fund names using ESG or sustainability-related terms (2024). We do not support the development of prescriptive labels which act as a de facto classification scheme as per the UK SDR requirements. The SDR labels are flawed, in particular the 'Sustainability Improvers' label which allows managers to invest in companies with the 'potential to improve' has the potential to facilitate greenwashing by allowing managers to put a sustainability label on a portfolio without objective sustainability characteristics. By the time a company with the 'potential to improve' has demonstrated that it is not improving in line with a 'robust, evidence-based standard', investors have been misled for a considerable period. Any of the 239 companies removed from SBTi in 2024[3] for not meeting deadlines or standards all had the 'potential to improve' but had not taken sufficient steps to actually improve. It is important that whatever criteria is set by regulation to evidence sustainability claims, that the required evidence be objective and not based on the subjective assessment of the manager or a commercial data provider. The use of subjective assessment to evidence claims will result in the facilitation of greenwashing.

Question 4 Is international interoperability important for Australian sustainable investment product labelling?

Current ESG fund labelling and classification systems in the EU (SFDR), and UK (SDR) have substantial shortcomings and vary in their logic and scope. Any Australian regulation should focus on the objectives of credibility and suitability for the protection of Australia Consumers. If interoperability is a factor of concern, the European Securities and Markets Authority (ESMA) Naming Guidelines should be prioritised.

Question 5a - Do the Responsible Investment Approaches (identified in Table A), UNSDG and PRI cover the field for sustainable investment approaches? Are there others that should be considered?

The GSIA approaches detailed in Table A are one approach to the classification of investment products. These are, in the main, determined by the ***process*** by which assets are selected for inclusion in an investment product or portfolio. They are broad headings and could be more granular. For example, Activist Management, an extreme form of Stewardship, where assets are acquired with the intention of creating value by forcing change to the strategy or structure of a company, could be considered a separate category. Similarly, Screening could be broken into Ethical, SRI and Faith-based approaches.

The language used in the consultation paper also suggests that the GSIA categories are exclusionary. This is not the case. Negative screens can be applied to a portfolio whose assets are selected by a process that includes ESG Integration or is consistent with Thematic Investing. Similarly, Stewardship can and should be practiced by all responsible investment managers, regardless of the process used to select assets for investment.

[3]https://sciencebasedtargets.org/blog/final-campaign-evaluation-report-published

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There are alternative methods of classification and for the purposes of regulation if a classification system is proposed, it should be based on the ***type of assets*** held or not held, not by the process of asset selection. Categorisation of the different approaches to the process of asset selection will evolve over time and is best left to the industry.

A best-practice process of categorising funds based on the sustainability characteristics of the constituent holdings is detailed in the CFA Institute paper referenced above. Additionally, particularly with regard to claims of real-world impacts, any categorisation process should differentiate between assets acquired on primary and secondary markets. While assets acquired on secondary markets may have real world impacts, the process of investment, which simply involves the transfer of beneficial ownership, typically does not.

b. Are any of these approaches inappropriate? If so, why?

While none of the approaches are inappropriate it is worth commenting on ESG Integration and SDG Alignment. ESG Integration is a process of risk management that incorporates environmental, social, and governance issues in the decision to buy and hold an asset. If an asset is held in an ESG integration portfolio it says nothing about the ESG characteristics of that asset, only that the expected return was sufficient to compensate for the risks, financial and non-financial, of holding the asset. It is virtually impossible for an outsider to determine if a manager is practicing ESG integration noting that the prosecution of DWT by German prosecutors in 2023 for greenwashing was only made possible by the actions of a whistleblower who revealed that ESG integration was not being practiced as claimed. Incorrect and overblown claims of ESG integration is almost certainly the most prevalent type of greenwashing in the Australian market.

SDG alignment as a measure of sustainability is extremely problematic. Firstly, it should be remembered that the process to formulate the SDGs was largely political and the output of a negotiation process by UN General Assembly member states, all with their own vested interests. Secondly, it should be noted that the 17 headline goals are largely 'motherhood' statements and the real goals are the actions and outcomes that contribute to the 169 underlying targets. Hence any reference to the SDGs in terms of sustainability claims should focus on the ***contribution*** to the underlying target, not the ***alignment*** with the headline goal. There is a material difference between 'alignment' and 'contribution'. As an example, a large European consumer goods company sells water filters in North America and Europe. Commercial data providers say the company is 'aligned' with SDG 6 Clean Water and Sanitation. There are six targets linked to SDG 6. Selling water filters to people in the developed world who have access to clean water from the tap makes no contribution to any of those targets. Most commercial data providers and ESG rating houses will assess the company as aligned with SDG 6, even though it makes virtually no contribution to achieving any of the associated targets. SDG alignment is principally used as a soft form of greenwashing, and we would strongly litigate that it is not referred to in sustainable financial product labelling regulation.

c. What are the merits and deficiencies of each approach?

The merits and deficiencies of each approach are contentious and to a large extent are not relevant to consumer protection, which should focus on the alignment of claims and practice. There has been for some years an ongoing argument in the industry around the merits of engagement versus exclusion. In most instances the debate has been at cross purposes.[4] The principal reason investors want to exclude companies from their investment portfolio is not because they think it will affect real world outcomes, but because they wish to align their investments with their moral values. Divesting a company, which on secondary markets simply means finding a new owner for the security, has little or no real-world impacts beyond signalling. Similarly, buying a company on secondary markets has no real-world impacts, even if the company itself contributes to sustainability objectives. Based on this some commentators have argued that engagement is more 'effective' than divestment. However, this conclusion does not stand up to empirical research that generally finds there is little evidence that stewardship results in a company taking action that was not aligned with its own commercial self-interest, particularly in the area of emissions reduction. We note in particular the work of Tom Gosling, Senior Visiting Fellow, Law School, London Business School.[5]

d. Should the approaches be ranked on their ability to deliver sustainable outcomes?

No. Firstly, if the intent is to restrict sustainability labels to investment products with unambiguously positive real-world outcomes, then only impact funds operating in primary markets should qualify. This is a very small subset of the responsible investment universe. Different approaches to responsible investment, and different product types, are designed to have different characteristics and appeal to different types of investors. Imposing explicit or implied ordinality (ranking) on approaches creates the risk of a false hierarchy. A genuine ESG integration approach designed to account for and manage non-financial risks is not better or worse than an impact fund focused on real world outcomes. It is simply trying to achieve different things and meet different investor objectives. Further, ordinality can lead to the marketing of funds as being in the "highest" category for credibility, regardless of whether the product matches an investor's objectives or risk tolerance. We again refer to the CFA Institute paper on guidance for market best practice on designing a classification framework.

[4]https://www.betashares.com.au/insights/ethical-investment-what-the-critics-got-wrong/
[5]https://www.bordertocoast.org.uk/wp-content/uploads/2024/09/Border-to-Coast_Divestment-and-Engagement-in-the-Context-of-Climate-Change_August-2024.pdf?utm_source=chatgpt.com and https://academic.oup.com/jfr/article/11/1/1/7919285

Question 6 - Should allowable investment approaches be prescribed in legislation, or left for industry to define?

Allowable approaches should be left to the market to decide. Regulation should focus on the evidence required by managers to support sustainability claims regardless of the approach employed. This should be based on the assets held, not the approach to the process of investing.

Question 7 - Which approach can best improve the confidence of Australian investors? Which options best help investors to identify, compare, and make informed decisions about sustainable investment products?

We repeat previous comments that a labelling framework is different to a classification system. The best way to improve the confidence of Australian investors is a labelling framework focused on consumer protection. That is, a framework that states if products use sustainability terms in their label, or make sustainability claims, then the responsible entity must be able to evidence those claims in a credible manner. The labelling framework can specify the types of assets that can and cannot be held by companies making sustainability claims.

An option that helps investors make informed decisions about sustainable investment products is a classification system. Should the government decide to introduce a classification system through regulation, we again refer to the CFA Institute paper on best practice for a classification system.

Question 8 - What should determine when product labels apply to a financial product? What are the benefits and costs of:

a. applying labels to all financial products regardless of sustainability claims?

b. applying them only to products that market themselves as sustainable or similar?

We recommend against introducing a system that applies labels to products or creates a compliance burden for products that do not make any sustainability claims. Adding cost to products that do not make sustainability claims and are sold to investors with no interest beyond return maximisation, as per the EU SFDR Article 6 disclosure requirements, is in no one's best interest.

A labelling framework should, at a minimum, focus on retail financial products. We do note however that wholesale instruments with sustainability claims find their way into investment products sold to retail clients. As an example, the Woolworths green bond was held by superannuation funds and investment funds offered to retail investors. The sustainability claims of that instrument were questionable at best for reasons detailed in the Environmental Defenders Office letter to ASIC in December 2023[6]. Thought should be given to ensuring the sustainability claims of wholesale instruments where there will ultimately be flow through exposure to retail investors.

Question 9 - Which approach would best address issues of greenwashing and/or greenhushing?

An approach that effectively addresses greenwashing will inevitably result in an increase in greenhushing. This is unavoidable. Products whose sustainability claims are marginal are likely to opt out of a sustainable product labelling regime. This is in the interest of consumers genuinely interested in sustainability. The credibility of the industry has not benefited from the overblown sustainability claims of 'lite green' products.

We recommend the approach be adopted that if sustainability terms (see below) are used in a product label, or sustainability claims are made by a product, then the responsible entity must be able to justify the use of those terms through objective evidence. The type of evidence dependent on the particular claim being made. Further, that if those terms are used, then dependent on the term the product should be subject to binding "Do No Significant Harm" (DNSH) criteria, similar to SFDR EU Taxonomy requirements.

Question 10 - What features of a financial product should trigger a labelling requirement?

a. Should particular words or terms be specified?

Yes. Any regulation should provide a non-exhaustive list of terms. This should include: Activist, Climate, Low Carbon, Carbon Neutral, Decarbonisation, Net Zero, Paris-aligned, Clean Tech, Diversity and Inclusion, Eco/Environment/Environmental, Engagement, ESG, Ethical, Gender, Green, Impact, Responsible, Screened, SRI, Stewardship, Sustainable/Sustainability, Transition.

The regulation should also state that any term not specified, but which could reasonably be expected to imply social or environmental characteristics in addition to financial returns, should be covered.

b. Should it be based on a threshold such as per cent of product invested under a sustainable investment approach or objective?

In general, yes but this is dependent on the term used or the claim being made. In this we are slightly at odds with RIAA's Certification Standard, which we believe should be the basis for any labelling regulation.

As per the CFA Institute paper, existing labelling and classification frameworks fail to adequately define the word '***sustainable***'. We argue the ASFI Taxonomy is fundamentally not fit-for-purpose largely because of its failure to adhere to a credible definition of the term 'sustainable'.

[6]https://www.edo.org.au/wp-content/uploads/2023/12/Letter_to_ASIC_re_sustainable_finance_taxonomies.pdf

From an ethical and responsible investing perspective, there are two acceptable definitions of the term 'sustainable'. The oldest is the Brundtland Commission report[7] definition of "***meeting the needs of the present without compromising the ability of future generations to meet their own needs.***" Under this definition a product is 'sustainable' if it does not hold assets that compromise the ability of future generations to meet their own needs. Hence a product using the term 'sustainable' in this sense, should be able to evidence that claim by strict adherence to DNSH provisions, i.e. what it excludes rather than what it includes. Neither the RIAA Certification Standard nor the ESMA Naming Guidelines accommodate this definition of the term, however it is the one most consistent with retail investor expectations.

The second definition of 'sustainable' is tied to the concept of a '***sustainability objective***' which dates from the development of the SDGs and its predecessor the Millenium Development Goals. This is the definition captured by the RIAA Certification Standard. Hence a product is 'sustainable' if it ***contributes*** to the achievement of a sustainability objective such as climate change mitigation. A product using the term in this sense should be subject to a threshold such as a minimum percent of assets that contribute to the objective and the absence of assets that detract from the objective. Note that whether an asset contributes to an objective should be objectively determined. For example, a product that claims to contribute to climate change mitigation should be assessed according to its percentage of green revenues or its Scope 4 or avoided emissions (calculated in accordance with a credible methodology such as the World Business Council for Sustainable Development Avoided Emissions Framework). The product should not be assessed according to the subjective determination of the manager that an issuer or asset contributes to climate change mitigation.

Question 11 - Should evidentiary requirements underpinning labelling be prescriptive, principled or a mixture of both?

The answer is a mixture of both. The important criteria here is that the evidence is objective and holdings based. That is, it should be determined by the outcome of the process not the process itself. The only possible exception here is Activist management, where the intent is to exert some form of influence or control over the issuer, where the manager should be required to report on the sustainability outcomes of its actions. Within the principle of a requirement to provide objective evidence of sustainability claims, responsible entities should have some discretion as to what evidence to provide, subject to relevance.

Question 12 - Should evidentiary requirements for investment product labels be linked to other policy initiatives being progressed as part of the Roadmap (such as the taxonomy)?

Ideally, reference to the ASFI Taxonomy could have been made to evidence sustainability claims. Unfortunately, the ASFI Taxonomy is not fit for purpose in this regard. The main failure of the ASFI Taxonomy is that, among other things, it defined sustainable as "consistent with net-zero" **and** "consistent with a ***pathway*** to net zero". Hence it included high emission activities as sustainable, which is not credible. A high emission activity consistent with a pathway to net zero is like the arsonist who says, "Last year I burned five buildings down, this year I only burned down one, clearly I've made a major contribution to the community."

Question 13 - What should be the role of independent third-party certification?

- **a. If third-party certification is required, what criteria should be the product be certified against and who should set those criteria?**
- **b. If third-party certification is not required, how can credibility and robustness of labels be ensured?**

Third party certification should be required to maintain credibility. We recommend a single certifying authority. We strongly recommend that entities not be allowed to 'shop' for a certifying authority as this has the potential to create commercial conflicts of interest and impact credibility, which has happened in voluntary sustainable certification schemes for other products such as timber, aquaculture and carbon credits. We believe RIAA is well placed to be a certification authority subject to regulatory oversight. Criteria should be based on the existing RIAA Standard, but we would recommend a process of public consultation on the standard with the final form determined by Treasury.

[7]https://sustainabledevelopment.un.org/content/documents/5987our-common-future.pdf