ESG and Sustainability

WITH ALPHINITY INVESTMENT MANAGEMENT

OCTOBER 2025

Thematic	ESG topics	Sector
Multiple	Psychosocial safety, First Nations, Human rights	Multiple

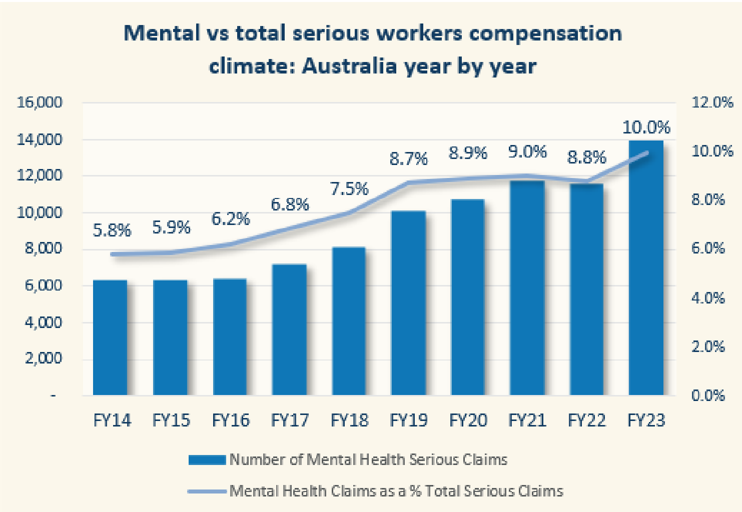
Three critical social issues reshaping Australian investment risks in 2025

As we navigate an increasingly complex investment landscape, social considerations have emerged as material drivers of both risk and opportunity across our portfolio holdings. Through a comprehensive materiality analysis of 118 listed Australian and global companies, and nearly 200 ESG engagements in 2024, three social issues stand out as having significant potential impacts on investment returns: mental health and psychosocial safety, First Nations heritage management, and human rights concerns and incidents. This report outlines the materiality of these issues, their interface with our Australian equity portfolios and how we view and manage potential investment implications.

Mental Health: The Fastest Growing Workplace Risk

Mental health claims have become the fastest growing category of workers' compensation in Australia. **10.5% of all serious workers' compensation claims in 2022-23 related to mental health** – an increase of 7,200 claims (97.3%) over the past decade[1].

More concerning for investors is the financial impact. Mental health conditions carry a median compensation of **$65,400 per serious claim**, more than four times the median compensation for physical injuries, with workers losing 37 weeks on average versus 7 weeks for other claims[1].



Source: Safe Work Australia, Macquarie Group

This trend is already manifesting across our holdings. In 2024, Woolworths reported an increase of violence and aggression in stores with reported incidents up 63% in FY24 compared to FY23[2], while in 2025, BHP disclosed

[1] Safe Work Australia
[2] Woolworths 2024 Sustainability Report

that the company had established 102 cases of sexual harassment[3]. Last year, a class-action related to sexual harassment in mining was announced with BHP and Rio Tinto in the crosshairs.

Image: photo of a small but typical mining camp in the Pilbara

The mining sector faces particular challenges due to remote work environments, low diversity levels, and alcohol-related issues in fly-in-fly-out (FIFO) accommodation. Our site visits to Pilbara operations of some major mining companies revealed the complex risk factors contributing to psychosocial safety concerns. First and foremost, mining camp design is critical to ensuring a safe and inclusive operating environment. For example putting in place controls such as daily alcohol limits for workers, CCTV cameras, employee advisory groups, and enhanced locks and lighting around rooms.

Three years ago, Rio Tinto, BHP and Fortescue Metal Group were at the centre of reports about the extent of sexual harassment in the FIFO mining industry. Rio Tinto's Report into Workplace Culture revealed that 46% of men and 56% of women have experienced bullying in the workforce, while 28.2% of female employees had experienced sexual harassment in the last 5 years[4].

Mental health is also a market opportunity. Medibank is investing $50 million over five years in mental health services, including 24/7 support lines and virtual psychology clinics[5]. Ramsay Health Care acquired UK-based Elysium Healthcare for $1.4 billion in 2022 specifically to enter the £15 billion UK mental health market. However, Ramsay's experience highlights execution risks—Elysium has significantly underperformed expectations due to occupancy challenges, resulting in a £151 million impairment in their recent results[6].

For investors, mental health and psychosocial safety creates a new category of operational cost pressure that may disproportionately affect labour-intensive sectors. Workers' compensation insurance premiums are already rising sharply across Australia—NSW premiums increased 8% annually for three consecutive years ending in 2025-26[7], this is compounded by a surge in mental health related claims. For example, Victoria's WorkCover scheme faces a 42% levy increase driven primarily by surging mental health injuries, which now represent 16% of new claims[8]. Financial modelling, completed by Foremind, projects mental health claims could double by 2030, or nearly triple under high growth scenarios, with NSW expecting an additional 80,000 psychological injury

[3] BHP 2025 Annual Report
[4] Report into Workplace Culture at Rio Tinto, 2022
[5] Medibank media release 'Medibank to invest an extra $50m into mental health' (19 March 2025)
[6] Ramsay Health Care Limited, "Acquisition of Leading UK Mental Health Provider Elysium Healthcare," ASX Announcement, 13 December 2021.
[7] iCare Premium Updates for 2025-26
[8] Honan 'Mental Health Injuries Impacting Workers' Compensation Scheme: A Call to Action', 22 May 2023

claims over the next five years[9]. For companies unable to demonstrate effective psychosocial risk management, this trend represents an accelerating headwind to profitability that will only intensify over the next decade.

With psychosocial safety now formally included in Australia's health and safety laws, and positive duty placing legal obligations on businesses to proactively prevent workplace harassment and other forms of discrimination, there's a strong regulatory push to address mental health and psychological injury issues. Fundamentally, companies with poor cultural and respect principles, weak understanding of psychosocial hazards in the workplace, and an unwillingness to get ahead of mental health and psychosocial safety through training and awareness may also face productivity challenges, talent retention issues, unexpected costs or even legal disputes. Companies more mature in their approaches are better placed to manage these risks.

First Nations Engagement: Beyond Compliance to Partnership

First Nations heritage management has evolved as a material issue across multiple industries. With approximately 3,000 Aboriginal and Torres Strait Islander corporations registered under federal legislation, including 186 native title land-holding bodies, the scale of required corporate engagement is substantial and growing[10].

The corporate landscape is complicated by deep divisions in public sentiment. The failed Voice referendum highlighted this dissonance, with 60% of Australians voting against the proposal. Companies taking public stances can also face significant reputational risks—both Qantas and Woolworths experienced substantial negative media attention and customer backlash when supporting the Voice campaign and broader agenda, demonstrating the challenge of navigating stakeholder expectations while maintaining authentic engagement with Traditional Owners.

The mining industry faces particularly acute exposure, with approximately 80% of operational critical mineral projects on land with existing or pending Native Title Agreements[11]. This requires mining companies to put in place agreements with Traditional Owner groups, establish benefit share arrangements including the payment of mining royalties, manage impact to cultural heritage sites, and work with these groups on an ongoing basis throughout construction and operation.

Recent high-profile incidents demonstrate the financial consequences of poor engagement and relationship management. Rio Tinto's destruction of Juukan Caves in 2020 ultimately led to changes to the Board, the replacement of the CEO, and years of revenue headwinds as the company struggles to life production. Santos increased the budget for its Barossa gas project by as much as $US300 million due to legal challenges and delays[12].

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[9] NSW Treasurer Daniel Mookhey, ministerial statement (March 2025), as cited in Pinsent Masons legal analysis
[10] Office of the Registrar of Indigenous Corporations (ORIC) (September 2025)
[11] Science Direct, 'Mapping critical minerals projects and their intersection with Indigenous peoples' land rights in Australia' (July 2024)
[12] Australian Financial Review 'Santos raises cost for Barossa gas after legal delays' (25 January 2024)

Through our engagements with Traditional Owners in the Pilbara, Western Australia, we have learned that the nature of each relationship between a Traditional Owner organisation and a mining company is unique and often complex. Some of these relationships go back more than 50 years and can be steeped in a history or mistrust and agitation.

Image: photo of small group of investors in the Pilbara listening to the Robe River Kuruma Traditional Owners

Each group also has a different set of priorities and values that are taken into negotiations with companies. Business development and long-term financial security seems to be extremely important to some, along with fair compensation and royalty agreements.

The way forward requires genuine relationships with First Nations groups using frameworks such as the Dhawura Ngilan Business and Investor Guides and Reconciliation Action Plans, moving past tokenistic engagement towards co-designed programs embodying free prior and informed consent (FPIC). Yet, many companies remain caught between commercial pressures and community expectations. By ignoring this opportunity, companies risk costly project delays, legal challenges running into hundreds of millions, and irreparable damage to their social license to operate where Traditional Owner consent and participation is essential for business continuity.

Human Rights: Supply Chain Scrutiny Intensifies

The regulatory environment for human rights and modern slavery is undergoing fundamental transformation globally. Australia's Modern Slavery Act 2018, which requires companies with revenue exceeding $100 million to report on supply chain risks, is being strengthened following a 2024 government review. Proposed changes include civil penalties for non-compliance, mandatory due diligence systems, and lower reporting thresholds to phase in smaller companies[13]. The appointment of Australia's inaugural Anti-Slavery Commissioner in November 2024 signals heightened enforcement intent.

This regulatory tightening is part of a global trend. The EU's Corporate Sustainability Due Diligence Directive, which entered force in July 2024, mandates human rights due diligence across entire value chains for large companies operating in Europe, with penalties up to 5% of global turnover for non-compliance. Germany's Supply Chain Act, effective since 2023, imposes fines up to 2% of annual revenue for violations. The US Uyghur Forced Labor Prevention Act has created import bans affecting multiple industries, with 144 entities now on the

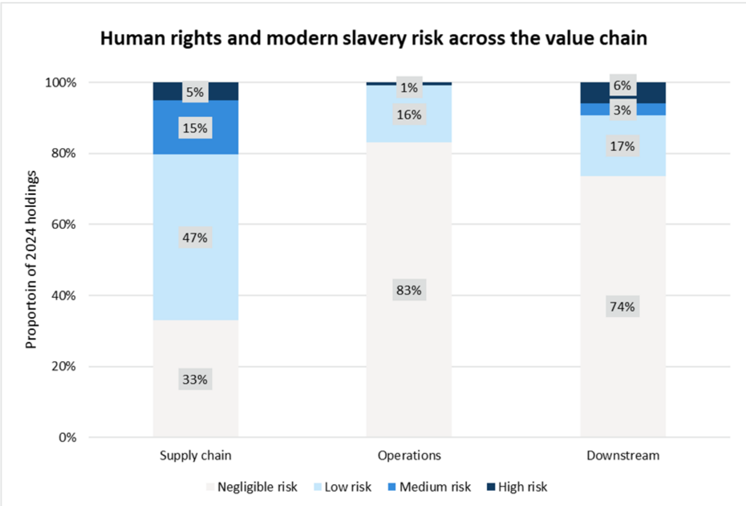
[13] Australian Government, Attorney-General's Department, "Australian Government response to the review report of the Modern Slavery Act 2018," 2 December 2024

restricted list. US Customs has detained over 12,500 shipments valued at US$3.68 billion since June 2022[14]. The EU's Forced Labor Regulation will introduce similar trade restrictions from 2027.

For Australian companies with global operations or supply chains, this creates overlapping compliance obligations and heightened exposure to enforcement actions across multiple jurisdictions.

Real-world impacts demonstrate how human rights failures translate into material business consequences. Ansell Global's Malaysian supplier raids resulted in US import blocks during the critical COVID-19 period, directly disrupting supply chains and contract fulfillment when demand for medical gloves peaked. Wesfarmers faces lawsuits alleging forced labour in Kmart's Chinese manufacturing base, creating legal costs and reputational damage for one of Australia's most recognised retail brands. Shein's UK IPO remains indefinitely delayed due to supply chain ethics concerns, illustrating how human rights risks can prevent capital raising and exit strategies. These incidents share common threads: supply chain opacity created vulnerability, third-party audits failed to identify issues, and the resulting disruptions occurred precisely when operational resilience mattered most to investors.

Our 2024 Modern Slavery Risk Assessment revealed that 20% of our portfolio companies face medium or high supply chain risks[15]. Our field research across Malaysia, Indonesia, Bangladesh, Vietnam, India, and China provides crucial ground-truth insights that support more informed risk identification and effective company engagement with portfolio companies. In 2023, we toured apparel factories and met workers directly to understand modern slavery risks in tier 1 supply chains, wage structures, and grievance mechanisms. In 2025, we engaged with AI value chain companies to assess human rights implications in emerging technologies, including surveillance and worker privacy concerns.



Source: Alphinity Investment Management, 2024 analysis. See 2024 ESG and Sustainability Report for more.

Encouragingly, companies are improving their disclosure practices, with our analysis showing 97% of portfolio companies now having human rights policies. 93% also stated these in supplier codes of conduct. We're seeing general improvement in management indicators: 30% of companies conducted supply chain audits in 2023, rising to over 70% in 2024. However, significant gaps remain in transparency, with only 11% of companies reporting actual incidents of human rights breaches—suggesting systematic underreporting rather than an absence of

[14] US Customs and Border Protection (CBP), UFLPA enforcement statistics and dashboard
[15] Alphinity analysis, 2024 ESG and Sustainability Report

issues[16]. This disconnect between stated policies and disclosed incidents indicates that many companies either lack effective detection mechanisms or are reluctant to publicly acknowledge issues, both of which present material risks for investors.

Investment Implications

These three social issues create distinct but interconnected material risks across our portfolios, with sector-specific exposures requiring tailored assessments that we have developed over the past three years.

- **Mental Health and Psychosocial Safety:** Escalating direct costs from compensation claims ($65,400 median per claim), rising insurance premiums, extended worker absences (37 weeks average), and class action litigation exposure are creating a structural cost disadvantage for companies with weak psychosocial safety frameworks, particularly affecting labor-intensive sectors where these costs directly impact operating margins.
- **First Nations Heritage Management:** Poor engagement creates dual risks—operational disruptions costing $300-500 million in project delays and legal challenges, combined with reputational damage from public positioning missteps—while authentic relationships unlock partnership opportunities in financial services and resource development that competitors cannot access.
- **Human Rights and Modern Slavery:** Supply chain opacity exposes companies to enforcement actions across multiple jurisdictions (with penalties reaching 5% of global turnover), import bans disrupting critical supply routes, capital market constraints, reputational impacts and cost implications for heightened supplier due diligence measures to meet growing stakeholder expectations.

In 2022, following the extent of sexual harassment, bullying and racism highlighted in the mining industry, we developed and published a Workplace Culture framework[17] with best practice case studies and specific indicators to better assess and measure company culture. For the past three years we have been publishing insights from our bespoke Modern Slavery risk and management assessment[18] and continue to enhance our approach with new data and additional indicators. Recently we have also committed to a pilot program to implement and test the Dhawura Ngilan Business and Investor Guides into our ESG integration and stewardship processes. This is the only First Nations-Led Guides on the Protection of First Nations Cultural Heritage in our region[19].

The materiality of these social issues is evident in their financial quantification. Mental health claims projected to double by 2030, First Nations disputes generating project overruns exceeding AU$500 million, and human rights enforcement detaining US$3.68 billion in shipments. Companies with weak management frameworks face compounding disadvantages—rising insurance costs, operational disruptions, regulatory penalties, and reputational damage—while leaders gain competitive advantages through lower costs and enhanced stakeholder trust. For investors, distinguishing companies treating these as strategic priorities versus compliance exercises is essential for protecting portfolio returns.

[16] Alphinity analysis, 2024 ESG and Sustainability Report
[17] Assessing workplace culture from the outside in - Alphinity
[18] 2024 ESG and Sustainability Report - Alphinity
[19] Business Investor Guides | First Nations Heritage Protection Alliance

Looking Forward

Social issues are now central to a company's investment thesis and portfolio risk management. Companies proactively addressing mental health, engaging authentically with First Nations communities, and ensuring ethical supply chains are better positioned for sustainable returns.

Our engagement approach focuses on understanding how companies identify, measure, and mitigate these risks while capitalising on opportunities. The convergence of regulatory pressure, stakeholder expectations, and financial materiality means social considerations are integral to investment decision-making. As these social risks intensify and their financial impacts compound, the distinction between companies treating these issues as strategic priorities versus compliance exercises will increasingly separate investment winners from losers.