

## Sunsuper Pty Ltd

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Sunsuper Pty Ltd  
Sunsuper Superannuation Fund  
Sunsuper Financial Services Pty Ltd  
Sunsuper Pooled Superannuation Trust  
Precision Administration Services Pty Ltd

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# Environmental, Social and Governance (ESG) Policy

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Approved	Board	September 2020	Annual Review
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Amended	Board	May 2013	Changes made to bring policy in line with recent ESG enhancements.

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## 1. Objective & Purpose

Sunsuper's primary objective is to inspire and empower Australians to fulfil their retirement dreams. We aim to maximise members' real long-term investment returns without taking undue risks. As part of this responsibility, Sunsuper strongly believes that properly understanding and assessing the material risks and opportunities of its investments is an inherent requirement of fulfilling its fiduciary duty to members.

To best protect and manage investments for the long term, Sunsuper considers Environmental, Social and Governance (ESG) risks, impacts and opportunities in its investment decision-making process. We believe that integrating ESG considerations is entirely consistent with section 52(2)(c) of the Superannuation Industry (Supervision) Act requiring trustees to act 'in the best interests of the beneficiaries'. ESG integration is also consistent with better investment outcomes, coupled with creating a better future for our members. Research has shown that all other things being equal, entities that best manage ESG factors are more likely to be financially sustainable over the long term.

The purpose of this document is to outline the key elements of Sunsuper's ESG and Responsible Investment considerations and to provide transparency to members and stakeholders.

## 2. Framework

Sunsuper is a signatory to the United Nations Principles of Responsible Investment (UNPRI). The UNPRI is a set of six aspirational principles that align well with our approach to managing ESG issues within our investment portfolio. The principles are:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

## 3. Responsibility

The Trustee is at all times responsible for the Fund's investments. The Trustee has delegated primary responsibility for coordinating the Fund's ESG activities to Sunsuper's Head of Responsible Investment. Other parties to the ESG Policy will include but not be confined to the following:

- The Sunsuper Board and Investment Committee and relevant subcommittees thereof;
- Internal Sunsuper investment staff;
- Investment managers engaged by the Fund; and
- Service providers/advisers to the Fund.

## 4. Scope

The ESG Policy applies to all of Sunsuper's investment options; however, the Socially Conscious Balanced Option has additional exclusions as described in the product disclosure statement. Given that each investment is unique and the investment philosophies differ within and between asset classes, the method of ESG integration varies between asset classes.

## 5. Policy

Sunsuper believes that a balanced and practical approach to ESG and stewardship is most effective. Sunsuper will develop and support cultures that foster commitment to long-term shareholder value creation, business integrity and transparency. This will be achieved by:

- 5.1 ESG Integration;
- 5.2 Sunsuper's Social Licence to Invest Framework; and
- 5.3 Proxy Voting.

## 5.1 ESG Integration

Sunsuper integrates the consideration of ESG risks and opportunities into each investment decision. Where a consultant has assessed the capabilities of a manager in relation to ESG, this is included in the consideration. Other ESG considerations will relate to the industry in which the manager specialises, the materiality of ESG issues within the portfolio entities or assets, the quality of the most recent UNPRI assessment of the manager, and the quality of the policies and infrastructure the manager has in place to integrate ESG into its process.

## 5.2 Sunsuper's Social License to Invest (SLI) Framework

As a universal investor, Sunsuper has adopted the concept of a Social Licence to structure our ESG and stewardship activities. Our Social Licence to Invest (SLI) is a framework to consider the extent to which our investments are responsible and informs our actions for various ESG issues. The SLI includes five mechanisms for action:

1. Exclusion;
2. Activism;
3. Engagement;
4. Watch; and
5. Support.

Below, we describe each action and highlight key priorities within that action.

### 5.2.1 *Exclusion*

Also known as negative screening, exclusion is the ultimate sanction that can be taken. Exclusion involves listing particular stocks (by identifier) or sectors (by GICS Code) within an Investment Management Agreement, prohibiting the manager from directly investing in those entities/instruments.

An issue may merit Exclusion when all other options have been exhausted or where there is no conceivable way that Activism will yield adequate ESG characteristics. Additionally, in some cases Australian law may prohibit rendering 'assistance' to a particular industry, which gives rise to the risk of criminal offence. In such cases, Exclusion will be considered.

Sunsuper prefers to use activism or engagement to exert influence on investments rather than exclusion, as exclusions limit the investable universe in which Sunsuper operates. For investments in which Sunsuper has no direct influence, such as in pooled vehicles, Sunsuper considers the likelihood and extent to which the fund may be exposed to excluded securities into the investment decision and regularly monitors such investments.

#### *a. Tobacco Exclusion*

Sunsuper has excluded direct investments in tobacco manufacturing companies from all Investment Management Agreements within its investment portfolio. We believe that the tobacco industry is unsustainable over the long term as tobacco products, when used as intended, are likely to seriously harm or kill the customer. Moreover, this has seen escalating regulatory action such as taxes, plain packaging, advertising restrictions and warning labels being adopted by an increasing number of countries. When combined with effective education initiatives, we believe global smoking rates will continue to reduce.

#### *b. Cluster Munitions and Landmines Exclusions*

Sunsuper has excluded direct investments in companies that develop, produce or otherwise acquire cluster munitions from all Investment Management Agreements within its investment portfolio. This decision follows the enactment of the Criminal Code Amendment (Cluster Munitions Prohibition) Bill and Australia's ratification of the Convention on Cluster Munitions.

In addition, Sunsuper will amend Investment Management Agreements and instruct managers to divest and exclude direct investments in companies that develop, produce or otherwise acquire anti-personnel landmines by December 2018.

Although investment in such companies is not explicitly prohibited under the Ottawa Convention (to which Australia is a party), we believe excluding these companies from our portfolio is in the spirit of the Convention.

*c. Child and Slave Labour Exclusion*

Sunsuper will seek to identify those entities within its portfolios that have been found to have practices relating to child labour and modern slavery, with a particular focus on the Australian franchise industry. Sunsuper works with its managers to minimise its exposure to these entities and report on its activities in accordance with the Modern Slavery Act.

**5.2.2 Activism**

This activity involves taking a more vociferous attitude towards expressing our concerns and desires as an investor and trustee of over one million members' retirement savings. Sunsuper may take this action in the event that engagement has failed over a period of time.

Actions within this activity may include, but are not limited to, statements to the press, sponsoring shareholder resolutions at company general meetings, calling shareholder meetings, writing to other shareholders, writing open letters to companies, and participating in shareholder class action lawsuits.

Activism may be conducted by Sunsuper alone, as part of a collaboration of like-minded investors, or by supporting third party organisations that are performing Activism. In the event Activism does not deliver the required outcome, *Exclusion* may be considered.

*a. Climate Change*

As an identified material investment risk, Climate Change is a topic requiring heightened activity. In line with Sunsuper's fiduciary duty to members, material investment risks and opportunities relating to climate change are considered in accordance with Sunsuper's Climate Action Plan. The risk factors considered cover a range of warming scenarios and include:

**Policy:** The development of laws aimed at reducing the risk of further anthropogenic climate change.

**Physical:** The financial impact of physical damages and supply disruption on investments from acute and chronic weather events.

**Technology:** The lost revenues and stranded assets resulting from disruption via technology supporting a low-carbon economy.

**Consumer Behaviour:** The changes in demand from consumers intent on reducing their own carbon footprint.

Sunsuper collaborates with other global investors and engages with stakeholders, managers, and both listed and unlisted investee entities on this issue.

**5.2.3 Engagement**

Sunsuper believes that engaging widely on ESG issues will improve behaviours, promote best practice and lead to better understanding of business and strategic decisions. Sunsuper's engagement program will involve both direct and collaborative activities.

Active engagement will occur with:

*Sunsuper's managers and advisors.* Sunsuper will continually seek to improve the integration of ESG considerations into its Australian and global equities managers'

investment processes and obtain targeted advice and research from experts to improve our collective ESG practices.

*Major entities in which Sunsuper invests.* Where practical, Sunsuper's engagement activities will build a stronger relationship between the Fund and its major investee companies. This will result in more successful, timely improvements in ESG activities, and affords Sunsuper a deeper understanding of the nature and behaviour of the businesses in which it invests.

*Sunsuper's peers and other likeminded investors.* Where appropriate, Sunsuper will discuss current developments with other likeminded investors, and if necessary take a collaborative approach in order to magnify the impact of its efforts on issues of mutual concern.

The aim of the engagement is to better understand the issue, exert influence on an entity, raise awareness of an issue or simply build a better understanding of an entity. Milestones may be set in relation to identified priority ESG issues. In the event the milestone has not been met in a reasonable timeframe, the issue may be elevated to Activism.

a. *Unconscionable Work Practices*

Sunsuper will take an active and candid approach to questioning how ESG principles are used to evaluate investment by equities managers in particular companies, in order to protect against investment risk to our fund, where we become aware of investment in companies that exploit workers through wage theft or other unconscionable work practices.

b. *Aggressive Tax Avoidance*

Overly aggressive corporate tax avoidance is an unsustainable activity. Governments that collect tax revenue from companies operating within their jurisdiction are adversely impacted by such tax avoidance activities due to tax base erosion, which diminishes the ability of the government to provide social initiatives to citizens. This, in turn, leads to an escalation of regulatory, legal and collective actions, as well as the introduction of specific taxes targeting companies' diverted profits, often referred to as a 'Google Tax' or 'Digital Tax'.

The initial benefits sought by companies from tax minimisation are diluted and valuations are affected through reduced stability and predictability of earnings. Sunsuper will engage with companies in instances where tax minimisation is considered overly aggressive.

c. *Diversity*

Sunsuper continues to monitor and engage on a range of diversity dimensions with our investment managers and investee entities, noting empirical research findings that indicate management and board level diversity can be a critical asset in certain strategic contexts.

d. *Safety*

We will continue to assess and engage with entities' on their approaches to workplace safety. The target of zero harm is yet to be achieved in any geography, but the improvement in work force safety metrics over the last few decades has been encouraging. Injury frequency rates and fatalities have generally declined, but we note that rates of workplace safety incidents are more elevated in emerging markets.

#### 5.2.4 *Watch*

This implies a more passive approach towards a highlighted issue. When an issue is on Watch, we monitor it through broker research, media, third party data reports, and other sources. We will explore with managers and investee companies to ascertain the magnitude of the risk or opportunity, and their strategies to manage/take advantage of it. Within twelve months or sooner, the issue may either be removed from the watch list or escalated to Engagement, depending on the materiality and saliency of the issue.

#### 5.2.5 *Support*

This action is different than the aforementioned actions as it denotes a positive sentiment related to an issue which Sunsuper supports. A small subset of issues have been identified as having particularly well-aligned ESG qualities and benefit from synergies between financial and environmental, social & governance performance.

##### a. *Impact Investing*

We have the ability to make investments that have both a financial return and a measurable beneficial social benefit or environmental impact. Within our investment portfolio, these impact investments must meet strict risk and expected return parameters that are no different to our traditional portfolio.

### 5.3 Proxy Voting

Sunsuper recognises that as a shareholder of numerous companies listed on exchanges throughout the world, including the Australian Securities Exchange (ASX), it has a responsibility on behalf of its members to participate in the corporate governance issues of the companies in which it has investments. The voting of shares represents one aspect of Sunsuper's involvement in the governance processes of these companies.

#### 5.3.1 *Proxy Voting Guidance*

*Remuneration (including grants, remuneration reports, non-executive director fee pools, retirement benefit resolutions):* Remuneration practices that are proposed by Boards that motivate executives to achieve appropriate outcomes and are aligned with our investment horizon are likely to be supported. The purpose, drivers and expected outcomes of remuneration proposals may be required to be further explained during engagement activities prior to the vote.

*Director elections:* Directors standing for election that are proposed by agile, diverse and competent boards are likely to be supported. The intended structure of the board, and the skills and experience of the individual standing for election may be required to be further explained during engagement activities prior to the vote.

*Corporate actions:* We are likely to vote in line with our underlying managers' recommendations on corporate actions so long as they are aligned with the best long-term interests of our members.

*Shareholder proposals:* Following consideration of the views of the proponents, the company, our managers and our proxy advisors, we will consider shareholder proposals on their merit.

*Other:* Other resolutions proposed are considered on a case-by-case basis as to whether they are in the best long-term interests of members.

#### 5.3.2 *Listed Shares*

Sunsuper will be active in the proxy voting process to ensure that all available votes for listed companies are cast in a timely and consistent manner by its investment managers, to whom it delegates primary voting responsibility.

Sunsuper requires its equity managers to vote in a manner reflecting their determination of Sunsuper members' best interests. However there may be occasions where the Trustee

will direct investment managers how to vote. When considering its proxy voting in the best interests of members, Sunsuper will take into account:

- The above guidance on remuneration, director elections, corporate actions, shareholder proposals and other resolutions;
- The views of its investment managers;
- Professional proxy voting advice;
- The recommendation of the entity's directors not associated with the resolution;
- The unique circumstances facing the entity;
- Any independent expert's report;
- Real or perceived conflicts of interest; and
- Opinions of others relevant to the issue.

On an ongoing basis, Sunsuper will assess its investment managers' proxy voting actions to ensure that they are properly discharging their share voting responsibilities.

Sunsuper will annually assess its investment managers' proxy voting policies to ensure that their policies and philosophies are appropriate.

## **6. Reporting**

Sunsuper will provide a report on its ESG activities on a half-yearly basis to the Board, Executive and Investment Committee.

Sunsuper will report to members, employers and other stakeholders on ESG matters via its website on an annual basis. The Responsible Investment report will summarise the initiatives, submissions, and proxy voting activities undertaken by Sunsuper during that period.