

make your dreams
more than dreams



December 2014

Half-year ESG report to members

The last six months were dominated by the Australian reporting and Annual General Meeting season, and this report outlines our activities during this busy period. In addition, we review the sustainability progress of Sunsuper's largest directly owned infrastructure investment, Brisbane Airport Corporation, which is an interesting case study due to the new parallel runway project it is undertaking. Finally, we provide updates on our exclusions and our activities within the United Nations Principles of Responsible Investment.

How do ESG considerations affect you over the life of your superannuation? We strongly believe that your welfare in retirement will depend significantly on the superannuation benefit you receive, which in turn is substantially determined by the investment performance that we generate. An in-depth understanding of the material risks and opportunities of our investments is an inherent requirement of meeting our fiduciary duty. We consider ESG risks, impacts and opportunities when making investment decisions in order to protect and manage your retirement savings. All other things being equal, we prefer managers, companies and governments that best manage ESG factors because they are more likely to be financially sustainable in the long term.

Proxy Voting and Engagement

The major Annual General Meeting season of 2014 was an intense period of three months from September to November. Sunsuper participated in a record 309 AGMs, voting on 1,616 resolutions. Votes were cast 'against' 10% of all resolutions. These 'against' votes were concentrated in remuneration-based resolutions. Although the vast majority of remuneration reports and incentive plans were acceptable, there remains a small proportion (14%) that we deemed deficient. Common elements that caused 'against' votes related to excessive quantum, overly short-term time horizons, soft hurdles or board discretion to make payments despite non-performance.

During the period, we supported the overwhelming majority (95%) of director candidates. Lack of board independence and prolonged poor company performance were the key reasons for 'against' votes. Across the portfolio, 'against' votes were more prominent amongst small and medium-sized companies.

Table 1: Sunsuper's Australian voting record for the six months to December 2014

Resolution Type	For	Against	Abstain*	Total
Remuneration report	242	31	2	275
Executive remuneration	269	51	0	320
Non-executive director remuneration	39	3	1	43
Director election	665	37	2	704
Change in capitalisation	119	18	23	160
Other	94	16	4	114
Total	1428	156	32	1,616

*Abstentions were mostly made in circumstances where Sunsuper's manager was a party to the transaction.

Sunsuper's historical proxy voting statistics are tabled below. The position we have adopted demonstrates the balance between supporting incumbent boards and managers of investee companies, whilst challenging them to continually improve or risk a negative vote.

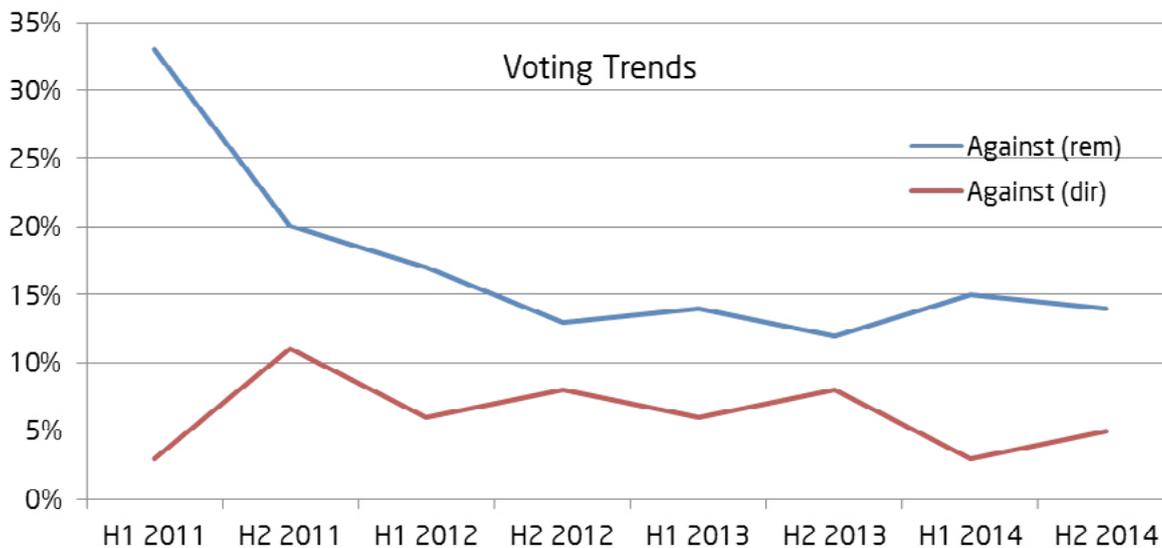
Disclaimer and disclosure This fact sheet has been prepared and issued by Sunsuper Pty Ltd, referred to as 'Sunsuper'. While it has been prepared with all reasonable care, no responsibility or liability is accepted for any errors, omissions or misstatements however caused. All forecasts and estimates are based on assumptions. If those assumptions change, our forecasts and estimates may also change. This fact sheet contains general information only. Any advice does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of any advice having regard to your personal objectives, financial situation and needs before acting on that advice. A copy of the *Product Disclosure Statement (PDS)* can be obtained by calling 13 11 84. You should consider the PDS in deciding whether to acquire, or to continue to hold, the product.

Sunsuper Pty Ltd
ABN 88 010 720 840
AFSL No. 228975
Sunsuper Superannuation Fund
ABN 98 503 137 921
USI 98 503 137 921 001

☎ 13 11 84
✉ GPO Box 2924 Brisbane QLD 4001
🌐 sunsuper.com.au
🐦 twitter.com/sunsuper
📘 facebook.com/sunsuper

Table 2: Sunsuper's key proxy voting statistics

	H1 '14	H1 '14	H2 '13	H1 '13	H2 '12	H1 '12	H2 '11	H1 '11
Meetings	309	94	292	87	290	77	306	69
Resolutions	1,616	510	1,504	480	1,385	350	1,472	348
Against (rem)	14%	15%	12%	14%	13%	17%	20%	33%
Against (dir)	5%	3%	8%	6%	8%	6%	11%	3%



As with previous years, the AGM season was preceded by a high-level engagement period with investee companies. Our major holdings were very willing to engage with Sunsuper and its managers this year. This was particularly the case where shareholder-sponsored resolutions were included in the notice of meeting. For example, the major banks were subject to activism seeking additional disclosure of lending practices. In addition, BHP Billiton, for the second consecutive year, received an external nomination for a director position. The agendas for these meetings were wide-ranging, focussing on items material to the business.

Infrastructure

Our largest direct infrastructure investment is in Brisbane Airport Corporation (BAC). In November, members of the investment team attended an investor site visit and the Annual General Meeting of BAC. Of particular interest was the progress made in the construction of the new parallel runway and the environmental challenges such a project faces.

BAC has been very deliberate in its environmental strategy. It has been awarded with a number of accolades, including the first ever Green Building Council's "Green Star - Communities" rating, the Healthy Waterways "Sustainable Water Management" award and a Level 1 Mapping Airport Carbon Accreditation certificate.

The new runway has had its share of environmental challenges, and it is clear that BAC have exceeded expectations in its efforts to meet those challenges. The clearing and mulching of the casuarina trees on the site rather than being sent to landfill is an example of a neat solution to one of these issues. As BAC waits for the sand it has placed on the runway site to settle (the last of the sand was pumped onto the site in December), the mulch piles will break down and will eventually be used as soil for the many gardens and other plantings to be landscaped in the final stages. This saves expenditure, reduces waste and eliminates the need to truck tonnes of topsoil into the area.

make your dreams
more than dreams



Exclusions

Sunsuper currently excludes direct investments in tobacco and cluster munitions manufacturers. Updated research on listed companies involved in the manufacture of cluster munitions and componentry was released in November 2014. The research confirmed that there were no additions or removals from the list of excluded companies. Eighteen months have passed since the implementation of these exclusions. The decision has had a small, but positive impact on performance over that period as tobacco stocks have underperformed the broader market.

United Nations Principles of Responsible Investment (UNPRI)

Sunsuper is a signatory to the UNPRI, an initiative that brings together an international network of investors with US\$45 trillion of assets with a goal of understanding the implications of sustainability for investors and incorporating consideration of ESG issues into their processes. During the period the UNPRI launched a 'call to action' campaign on bribery and corruption - an issue that falls into the 'S' part of ESG. Sunsuper participated in the action. A key element of a country's productivity and capacity for economic growth is its culture, and integral to that culture is its attitude to bribery and corruption. Our managers consider levels of bribery and corruption prior to making investment decisions. Having signed the call to action letter and supporting this initiative, Sunsuper potentially expands its investment universe into countries our managers may currently avoid due to such practices, slightly reduces the risk of left-tail events within our international equity and bond investments, demonstrates leadership in advancing good governance and anti-corruption, and contributes to a level playing field to all.