



ESG POLICY

ESG Policy

1 Purpose

- 1.1. This Environment, Social and Governance (ESG) Policy provides Energy Super (the Fund) with a framework for the consideration of these issues in the implementation of the Fund's investment program. The Policy also supports and forms part of the Trustee's Investment Governance Framework.

2 Scope

- 2.1 This Policy applies to Electricity Supply Industry Superannuation (Qld) Ltd (ABN 30 069 634 439; AFSL 336567) (the Trustee) as Trustee for Energy Super (ABN 33 761 363 685) (the Fund).

3 ESG Defined

- 3.1 ESG – refers to Environmental, Social and Governance factors.
 - a. Environmental Factors: refers to issues affecting the natural environment incorporating such issues as greenhouse gas emissions, climate change, resource use, waste management, water scarcity and damage to biodiversity.
 - b. Social Factors: refers to issues, policies and processes affecting individuals whether they are employees, customers, suppliers or members of the local or broader community. Social issues include human and labour management, occupational health and safety, supply chain management, bribery and corruption and the issues relating to conflict zones and community relations.
 - c. Governance Factors: refers to the system of internal controls, policies and procedures regarding how companies or assets are run or 'governed' and in particular the alignment of a company's board and management with the ultimate owners of the company, its shareholders. Governance issues include board composition and skills, executive remuneration, accounting and audit practices.
- 3.2 These factors tend to share a number of characteristics that tend to distinguish them from the more mainstream financial and business considerations such as:
 - a. They are generally qualitative in nature and not easily quantifiable in a monetary sense;
 - b. They reflect externalities not as yet readily captured by markets or risk models;
 - c. They tend to manifest over the medium to longer-term;
 - d. They tend to emerge as high profile issues of public concern; and
 - e. They are increasingly becoming the focus of both government regulation and intervention.

4 Policy Statement

- 4.1 The Trustee is committed to the sound and prudent management and oversight of its investments in order to deliver on its stated investment objectives and to manage the competing issues relating to costs, risk management and implementation efficiency.
- 4.2 The Trustee acknowledges that ESG issues have the ability to impact on the financial performance and/or risks to varying degrees depending on the asset class.
- 4.3 This Policy sets out how the Trustee considers ESG risk and opportunities in the investment process.

5 Objectives and Constraints

- 5.1 This Policy assists the Trustee in its:
 - a. Engagement with the market, companies, investment managers and other relevant stakeholders; and
 - b. Communications with members and the market, to promote both improved transparency and governance practices.
- 5.2 The Trustee offers one investment option – the SRI Balanced investment option – which is an externally managed, multi manager, balanced fund. This fund explicitly considers the impacts of ESG issues, identifying leaders within industries in their responsible approach to ESG issues. This fund excludes investments in areas that have a high negative social impact. The fund manager excludes companies from its allowable investment universe that derive a material (greater than 10% of total revenue) from Tobacco, Nuclear Power (and uranium), Armaments, Gambling, Alcohol and Pornography.

A further exclusion precludes the fund manager, or any of its underlying managers from making any investment in companies involved in the production of tobacco or "controversial weapons", or essential components of these weapons. Controversial weapons are considered to be land mines, cluster munitions, nuclear weapons or chemical weapons.

With the combustion of fossil-fuels seen as being the main source of global greenhouse emissions, the fund manager seeks to limit exposure to companies which have a material exposure to the most carbon intensive fossil fuels by excluding any company that has more than a 20% exposure (as measured by market capitalisation, or other appropriate financial metric) to one, or a combination of the following:

- Mining of thermal coal,
- Exploration and development of oil sands,
- Brown coal/lignite coal fired power generation,
- Transportation of oil from oil sands; and
- The conversion of coal to liquid fuels/feedstock.

- 5.3 For all other investment options, the Trustee adopts an outsourced investment model, with specialist external managers appointed to manage its assets. This Policy covers the approach applied to the consideration of ESG risks/management/integration for all investment options with the exclusion of the SRI Balanced investment option.
- 5.4 This Policy does not equate to ESG screening, and the integration of ESG factors into the investment process does not mean either the inclusion or exclusion of particular companies on either ethical or moral grounds.

6 ESG Integration

- 6.1 The trustee defines ESG integration as the consideration of ESG factors into the investment decision making process. This means that the Trustee will consider material ESG factors in conjunction with the more traditional risk/return and financial matrix when making investment decisions.
- 6.2 As the Trustee adopts an outsourced investment model, ESG is incorporated into the selection of, and the ongoing monitoring (or reviews) of the Fund's investment managers through:
- a. Obtaining (and reviewing) each investment manager's ESG, sustainability or SRI policy which documents the manner and nature of ESG integration into their investment management process;
 - b. Discussing stock specific examples with its investment managers and how ESG has influenced the assessment of investments – risks, opportunities, costs, voting, divestments etc;
 - c. How/where any external research providers are used in the investment process (in either company analysis or through risk assessments); and
 - d. Reviewing of an Investment Manager's participation in organisations such as the *Principles for Responsible Investing* initiative (as managed and overseen by the *PRI Association*) inclusive of reviews of any audits thereof.
- 6.3 Climate Change Risk, which forms a subset of Environmental Factor Risks, is specifically addressed by the Fund through:
- a. Consideration of the impacts of climate change on stranded assets, which are defined as being assets deployed for the exploitation of a fossil fuel resource that, due to reduced demand, will no longer be exploited and will thus have no, or little value;
 - b. Engaging with its Investment Managers on the risks of climate change to:
 - Ensure that they have an adequate ESG Policy, which includes and considers the impacts of climate change,
 - Ensure that they have considered the risks and impacts of climate change in the pricing of assets – for both acquisition and exits,
 - Manage their underlying portfolio exposures to climate change risks, and
 - Report on portfolio risks and pricing of such risks.
- 6.4 ESG is further integrated into the Fund's investment program through the exercise of ownership rights and voting through:
- a. The Fund's Proxy Voting Policy;
 - b. Obtaining (and reviewing) each Investment Manager's voting policies and voting actions to ensure alignment with the Trustee's Proxy Voting Policy;
 - c. Engagement in collective actions with other like-minded superannuation funds to undertake either research or advocacy (e.g. Australian Council of Superannuation Investors (ACSI), The Association of Superannuation Funds of Australia (ASFA) etc.); and
 - d. Using specialist service providers (such as ACSI) to engage with investee companies to influence corporate behaviours (such as remuneration, labour practices etc.) through the dialogue with both management and boards of companies.

7 Reporting

- 7.1 The Trustee is to be provided with regular updates on the Fund's ESG integration. This will be undertaken through:
- Voting – while the Fund's votes are automatically uploaded to its website, the Trustee is to be provided with a monthly summary of votes lodged against Management;
 - ESG reporting on an annual basis which is incorporated into Investment Manager contract reviews; and
 - Specific company based ESG reporting as required.

8 Roles and Responsibilities

8.1 Trustee:

Review the Fund's Policy on an annual basis and note management reporting on a monthly basis.

8.2 Investment Staff:

- Provides reporting to the Trustee on an annual basis as part of contract reviews on an asset class basis and more frequently if requested by the Trustee; and
- Monitors, implements and attests compliance with the Policy.

8.3 Governance, Risk and Assurance Staff:

Assists in the review of Policy and reporting from investment managers and ensure that this Policy is updated and made available on the Fund's website as and when required.

8.4 Asset Consultant

Assists in the formulation of this policy and provides input to the reviews of investment managers on ESG integration and reporting.

9 Approval and Review Details

- 9.1 The Trustee will periodically review this Policy to ensure that it is consistent with its strategic and risk management objectives as well as its regulatory requirements on an annual basis.
- 9.2 The Board's approval of the Policy will be recorded in the minutes of meeting.
- 9.3 Policy ownership, scheduled review and amendment details are included in the table below.

Approval and Review	Details
Approval Authority	Board of Directors
Advisory Committee to Approval Authority	Investment Committee
Administrator/Policy Owner	General Manager, Investments
Next Review Date	July 2018

Version	Approver	Date Approved	Details
1.0	Energy Super Board	16 December 2014	New Policy
2.0	Energy Super Board	25 September 2017	Updated policy