



Electricity Supply Industry Superannuation (Qld) Ltd

As Trustee for Energy Super

ESG Policy

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Document Review and Revision History

The following table contains the history of this document's revision

Version	Primary Authors	Description of Version	Date Completed	Document approved by and date
1.0	William Graus	New Policy	December 2014	December 2014 Board

1. Introduction

ESG is an acronym for Environmental, Social and Governance and its inclusion into the investment mainstream arose from work undertaken¹ examining the link between a company's financial performance and their management of ESG issues¹. ESG which has been known under various guises (from Socially Responsible Investing, Ethical Investing, Green Investing etc.) is becoming increasingly mainstream and imbedded into the Investment Process.

In addition to the various legal and compliance obligations, the following factors have been considered in the development and implementation of this policy:

- Size, scale and complexity of the Fund;
- The use of an external Investment Consultant with whom we work in terms of asset class and portfolio construction and the identification of underlying investment managers; and
- The historic and ongoing use of both discrete mandates and pooled mandates.

2. Purpose

This document has been prepared by **Electricity Supply Industry Superannuation (Qld) Ltd** (The "Trustee") in relation to Energy Super (the "Fund"). It has been prepared for the purposes of articulating the Trustee's policy with regards to Environment, Social and Governance (ESG) issues (the Policy) and is used to support the Trustees Investment Policy Statement. This document sets out at a high level the Fund's policy and approach to managing ESG issues and risks in its investment program.

The primary focus of the Trustee is to ensure that long term risk adjusted returns are delivered to members, in accordance with the various investment options as offered. This Policy is to be read in conjunction with the Proxy Voting – Corporate Actions Policy. Using the Proxy Voting Policy as a guide, and while noting that the integration of ESG into investment decision making is an evolving area, the Trustee acknowledges that ESG issues may affect the performance of investment portfolios to varying degrees across companies, sectors, regions, asset classes and through time.

3. Scope

Currently, Energy Super offers one Investment Option – SRI Balanced – where the manager adopts both a positive and negative screening approach to investing (including the exclusion of investments in companies that have a material exposure (defined as greater than 10% of revenue sourced therefrom) to the production or manufacture of Tobacco, Nuclear Power, Armaments, Gambling, Alcohol and Pornography).

The intention of this Policy is to cover the policy relating to ESG for all other investments, other than the SRI Balanced and addresses the manner in which we incorporate/integrate ESG into the decision making process will depend on the asset class and manner of accessing the asset class.

It should be noted that ESG integration in this policy may not equate to ESG screening, and that the integration of ESG factors into the investment process at Energy Super does not mean the inclusion or exclusion of particular companies on ethical or moral grounds.

4. Objectives

The principal objectives of this Policy are to ensure that:

- ESG risks and opportunities are considered as part of the Funds investment process;

¹ Robert Levering and Milton Moskowitz

- To assist and guide the Fund in its engagement with the market, companies, investment managers and service providers; and;
- To assist in its communication with members and the market, to promote both improved transparency and importantly, better governance practices.

It should be noted that the Fund has adopted an “outsourced” model, with specialist external investment managers appointed to manage its assets.

5. Definitions

ESG – refers to Environmental, Social and Governance.

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.

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.

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.

These factors tend to share a number of characteristics that tend to distinguish them from the more mainstream financial and business considerations in that:

- they are generally qualitative in nature and not easily quantifiable in a monetary sense;
- they reflect externalities not as yet readily captured by markets or risk models;
- they tend to manifest over the medium to longer-term;
- they tend to emerge as high profile issues of public concern; and
- increasingly they are becoming the focus of both government regulation and intervention.

6. ESG Integration

Energy Super defines ESG integration as the consideration of these factors into the investment decision making process. This means that we will consider material ESG factors in our decision making processes in conjunction with the more traditional risk/return and financial considerations. As we adopt an outsourced Investment model, we will incorporate ESG issues in the selection and monitoring of external managers).

We will integrate ESG through our investment managers by:

- Considering ESG issues in the appointment of external Investment Managers; and
- Raising and discussing the key ESG issues in the context of ongoing manager reviews².

² (Dependant on the asset class and nature of mandate (or pooled investment vehicle), we will seek to assess the extent and manner by which the managers’ incorporate ESG issues into their processes)

We will integrate ESG through our ownership rights (i.e. universal ownership and share voting) by:

- Having a Proxy Voting – Corporate Actions Policy which will be made available on our website;
- Reporting on our Proxy Voting on a regular basis;
- Reviewing our manager’s voting policies, their principles and their alignment with the Trustee Policy;
- Engaging in collective action with other like-minded Superannuation Funds to undertake public advocacy (e.g. ACSI, ASFA etc.);
- and
- Using specialist service providers (currently ACSI) to engage with investee companies through dialogue with management and boards to influence behaviours.

We believe that acting in collaboration with other like-minded investors’ increases the likelihood that we will be heard by the company or the relevant policy maker in comparison to acting alone.

Energy Super is committed to improving the approach to its implementation of ESG integration and as such our approach will remain flexible and will evolve over time.

7. Policy Compliance

Investment Managers and the Investment Consultant are to provide regular updates to their policies and voting. Management will review ESG considerations, with other elements in their assessment of Managers.

The reports may deal with the following issues:

- A copy of their current ESG, sustainability, or investment policy which documents the manner of ESG integration into the investment management process;
- Examples on ESG integration, risk assessments and how these have influenced or impacted on the investment decision making process, inclusive of case studies;
- How, any external ESG research and data service providers are used;
- A copy of their company engagement and proxy voting/governance policies;
- Whether they are, or have considered becoming, a member of the global Principals for Responsible Investing Initiative, and rationale thereof.

Management will report to the Board on the implementation of this policy on a regular basis.

8. Policy Notifications

This ESG Policy along with any related policies and guidelines will be provided to all employees and service providers.

9. Policy Responsibility

The specific responsibilities for this Policy are shown below:

Functional Group/Individual	Responsibility
Trustee Directors	<ul style="list-style-type: none">• Approve the Policy• Review the Policy• Review Management's implementation thereof
CEO/GM Investments	<ul style="list-style-type: none">• Oversee the Policy Implementation• Provide input to the Board on Policy Development and any changes thereto
Investment Team/Governance and Risk Team	<ul style="list-style-type: none">• Undertake the activities as required to implement the policy

10. Policy Review

The Policy and the implementation thereof will be reviewed on an annual basis and will be updated to incorporate any changes as required by:

- Member or community expectations;
- Regulatory or legal requirements as they relate to ESG issues;
- Changes to portfolio structure, new asset classes or a change in Investment Consultant.

ⁱ The analysis concerned the manner of corporate governance and the interrelationship between corporate efficiency and ultimately shareholder returns, and a number of empirical studies have examined the outcomes, with stronger ranked companies in the ESG space generally delivering better shareholder returns.