



Sustainable investment

Sustainable investment options at AustralianSuper

Investments in AustralianSuper’s three sustainable investment options are either completely or substantially in companies from all industry sectors, which have demonstrated best practices in relation to environmental, social and governance assessment criteria.

In other words, the companies have been assessed as worthy of investment because they lead their industries in sustainability practices. These practices relate to their employees’ safety and diversity, their impact on their communities, and their protection of the environment.

Our sustainable investment options include:

- **The Australian Sustainable Shares option**

This invests 100% of its assets in Australian shares which have been selected according to specific sustainable selection criteria. The development of the criteria and the selection of investments according to these criteria are managed on AustralianSuper’s behalf by Perpetual Investments.

- **The International Sustainable Shares option**

This option invests 100% of its assets in international shares which have been selected according to specific sustainable selection criteria. The development of the criteria and the selection of investments according to these criteria are managed on AustralianSuper’s behalf by Dexia Asset Management, within its Sustainable Global Equity Fund.

- **The Sustainable Balanced option**

This option has a similar asset allocation to AustralianSuper’s Balanced option. The difference is that its allocations to Australian and international shares are invested in the same sustainable investment portfolios that are used for the Australian Sustainable Shares and the International Sustainable Shares options. The rest of the asset allocation (to property, infrastructure, bonds and cash) is the same as our Balanced option, and no sustainable criteria are used in the selection of these assets.

How are the sustainable investments selected?

Sustainable investment funds invest in forward-thinking companies that take social, environmental and internal governance issues seriously.

Selection of the companies for investment in our sustainable shares options involves stringent assessment at each step. This includes a 'best of sector' qualification – which means only the best sustainability performers in each industry sector are selected for the portfolios.

These are the steps involved in our investment managers' selection of investments that are included in their sustainable portfolios:

Step 1. Companies are first selected according to rigorous criteria

The investment managers first select an 'investment universe' of companies based on their own research and analysis processes. Third party researchers or specialist sustainability analysts undertake comprehensive surveys on each potential company for investment, to assess their suitability for inclusion.

In the case of the Australian Sustainable Shares portfolio, managed by Perpetual Investments, this first investment universe is comprised of high quality companies, determined by Perpetual's usual standards if you were investing without sustainability objectives. Then companies which cannot demonstrate sustainable practices are excluded, based on third party research and manager analysis.

In the case of our International Sustainable Shares portfolio, managed by Dexia Asset Management, the initial investment universe is entirely comprised of sustainable companies, which are then further assessed in terms of being sound investment opportunities by the manager.

What are the sustainability criteria?

The key aspects researchers and managers use in assessing the quality or strength of companies' 'sustainable' practices are environmental, social and governance (often shortened to 'ESG').

For example, some of the considerations the ESG analyst will take into account include, but are not restricted to their:

- Environmental policies including pollution, the management of carbon emissions and waste products, and policies to protect biodiversity in the local environment;
- Commitment to minimising usage of energy, water and materials, and the lifecycle of the products they make;
- Corporate social responsibility and a commitment to supporting the communities in which the business is based, for example there may be poverty alleviation initiatives in some communities, as well as social investment and pro bono policies;
- Ethics and governance of the company, including a safe, fair and equal working environment and preferably, remuneration to senior managers based on ESG policy implementation;
- Transparent reporting processes, including environmental impact disclosure history and the reporting of improvements compared to policy targets.

Companies are given a rating based on these criteria.

Step 2. 'Best of sector' means only the top performers

Obviously a financial services or other office-based organisation will have a smaller environmental impact than a manufacturer or mining company. So AustralianSuper takes a 'best of sector' approach. This means we only invest in companies that are performing best in terms of both financial performance and ESG practices amongst their industry peers – their sector of operation. Only the top 35% of sustainable-rated companies that are selected by Perpetual and Dexia within each sector are considered for investment in the 'best of sector' approach.

Step 3. Investment portfolios are selected from this best of sector sustainable universe

Investments for our sustainable shares options are then expertly selected from these demonstrably sustainable best value and top performing companies.

Companies that are selected for the investment portfolios are regularly reassessed. From time to time other companies (from outside the top 35% of sustainability ratings) may also be selected by the managers based on their individual commitment to sustainability, which allows the sustainable 'leaders of the future' to be included.

How is 'sustainable' investing different from 'ethical' investing?

There are many overlaps between 'ethical' and 'sustainable' investing. In most contexts they both come under the broader umbrella of 'socially responsible investment'.

Ethical investing involves applying positive or negative screens to the investment selection process. A negative screen is when the investor rules out any investments that derive income from specific sectors (eg tobacco, gambling, uranium). A positive screen is when the investor proactively includes particular types of investments (eg green energy).

At AustralianSuper we recognise that some investors have very strong views about socially responsible investments and they believe certain industries should be negatively screened from a socially responsible portfolio. People have different values and standards, however, which means if a superannuation fund offers an ethically-based socially responsible investment portfolio, it will be compatible with some people's values but not others'. Unfortunately it is impossible to have an ethically-based investment strategy that suits all members.

Sustainable investment allows a much broader diversity of companies within its investment universe. And importantly, it encourages and rewards good environmental, social and governance practices in all industries.

Wider diversification minimises volatility

The returns of an investment portfolio can be strongly affected by the types of companies within the investment universe. As a general rule, when a wider diversity of companies is contained within a portfolio, its potential for volatility in returns is reduced. This is because different types of industry flourish at different times in the economic cycle. An obvious example is that retailers typically experience increased volumes before Christmas.

So the broader the range of industries included in a portfolio, the better the portfolio is at minimising volatility. Any investment manager, when selecting a universe of equities for investment, would aim for the broadest range of industry types, within guidelines of strongly performing companies that are also good value for investors.

When the universe is limited by exclusions of entire industries, for example mining companies, the likelihood of volatility in returns naturally rises. This is simply because of the relatively small number of types of companies within the universe. So performance volatility may also increase in portfolios with broad ethical exclusions.

Rewarding sustainable company practice

Sustainable investing can make a difference to the future of the way a company, or a whole industry, conducts its business.

The aim of sustainable investment is to create a business environment where industry and financial performance are not gained at the cost of individuals, cultures or the environment. However the very fact of rewarding those who do display commitment to environmental, social and governance excellence changes the marketplace. If investors are favouring certain publicly listed companies over others on the basis of their sustainability practices, the entire industry can begin to improve.

Companies are increasingly becoming aware that investors care about these issues and so as your investment rewards the best in their industry, their competitors realise they need to improve their sustainability practices.

AustralianSuper recognises that a growing number of our members want to reward best practice with their investment, and for this purpose we are pleased to be able to offer Australian Sustainable Shares, International Sustainable Shares and Sustainable Balanced options to all members.

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