

# ESG and Stewardship Policy

2023

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# ESG and Stewardship Policy

AustralianSuper believes Environmental, Social and Governance (ESG) factors have an important role in managing investment risk and opportunity, and maximising long-term returns for members. As such, consideration of ESG and Stewardship issues are integral to the Fund's investment process.

## 1. Beliefs

It is the Fund's belief that ESG factors and our stewardship actions can affect the value of investments, particularly over the long-term investment horizon which applies to the Fund's objectives. The objective of our ESG and Stewardship Policy is to ensure that ESG investment risks and opportunities are integrated into our investment processes, and to guide the Fund's stewardship activities to promote long-term value for members.

As a long-term owner, the Fund takes an active interest in the quality of the corporate governance, sustainability and corporate social responsibility policies and practices of its investments. We believe that companies that best manage ESG factors are likely to out-perform over the long term.

The Fund's ESG and Stewardship Policy is integral to fostering the Fund's reputation as a global investor of choice which can expand investment opportunities. The policy is framed in recognition of various initiatives, including:

- **treaty obligations** of the Australian government including, but not limited to, the UN Supplementary Convention on the Abolition of Slavery, the Convention on the Elimination of All Forms of Discrimination Against Women, and the Convention on the Rights of the Child
- **global initiatives** such as the UN's Sustainable Development Goals and the Paris Agreement on Climate Change as well as related public and private programs that seek global sustainability
- **host-country regulations**, rules, principles and requirements as these pertain to the Fund's investments and its relationships with third-party providers
- **standards of transparency**, honesty, and respect for the 'rules-of-commerce' as they pertain to the Fund as an important investor in global markets.

## 2. ESG and Stewardship program

AustralianSuper's ESG and Stewardship program has three core pillars:

1. **ESG Integration** - where the Fund integrates ESG considerations into its investment process.
2. **Stewardship** - where the Fund exercises the rights and responsibilities of ownership on behalf of members.
3. **Choice** - where the Fund provides members with investment choices consistent with their personal values.

The ESG and Stewardship Policy and program apply to the Fund's investment process. ESG Integration and Stewardship activities are undertaken across all major asset classes, while Socially Aware provides a screened investment option as a choice for members.

The implementation of our ESG and Stewardship Policy is affected by a number of practical considerations including:

- the financial materiality of the asset class or investment
- the assessment of ESG issues to valuation
- the characteristics of our ownership stake
- whether the investments are traded on public or private markets
- whether the investment is managed internally or through external managers
- the relevant regulatory and reporting requirements.

Oversight of the implementation of our ESG and Stewardship Policy is the responsibility of the Investment Committee, as delegated by the Board. The Investment Department is responsible for its implementation.

## ESG Integration

The objective of the Fund is that material ESG factors, being those likely to impact the value of an investment, are considered across major asset classes at relevant stages of the investment process. Integration of ESG factors takes place through:

- **due diligence** which precedes the decision to purchase an asset or appoint a fund manager, and is focused on the identification and analysis of ESG risks and opportunities
- **ownership** where the Fund exercises its rights and responsibilities as an owner to influence improved ESG practices in its investments
- **exit** during which decisions are taken to sell an asset or terminate an external manager mandate.

## Stewardship

The Fund recognises the rights and responsibilities of being a large asset owner. This includes communicating members' long-term investment interests to the investments (and asset managers) the Fund holds and exercising ownership rights in order to improve long-term investment value for members. Stewardship is exercised through voting, engagement, and participation in class actions.

- **Shareholder voting:** The Fund votes on resolutions paying due regard to the materiality and nature of its holdings in the entity. The Fund supports resolutions that enhance value, promote or require appropriate disclosure, ensure appropriate board composition and effective operation, and encourage appropriate performance-based remuneration practices. The Fund may consider advice from proxy advisors but is ultimately responsible for making decisions in the best investment interests of members.
- **Engagement:** Engagement with investments aims to promote practices that improve long-term investment value for members. The Fund's engagement with its investments is conducted on an ongoing basis, is tailored to the characteristics of the relevant holding, and may be undertaken with management, the Board, or via the Fund's nominee directors (where relevant). Engagement may be undertaken directly by AustralianSuper or via

engagement service providers. The Fund may proactively engage with investments on ESG themes or to resolve concerns as they arise.

- **Class actions:** Class actions are a last-resort Stewardship strategy. They can offer a cost-effective way to recover member losses in the event of corporate misconduct and improve governance standards in the market and industry segments. Factors we consider when deciding if we will participate in class actions as a class member include whether:
  - it has been determined that there is a genuine allegation of a breach of law;
  - this breach resulted in a financial loss for the Fund;
  - a reliable and reasonable assessment that there are low (and reasonable) costs associated with the litigation participation; and
  - it has been assessed that there are no significant reputational risks to AustralianSuper.

## 3. Choice

The Fund's membership is large, growing and diverse. It reflects a significant slice of the Australian population. As such, members' values, preferences and attitudes are also diverse.

The Fund surveys members to be informed about what ESG issues are important to them. The Fund considers these views, and offers the Socially Aware option for members seeking a values-based investment choice.

## 4. Exclusions and divestment

The Fund believes that it is effective to use its influence as an active owner to promote alignment between ESG policies and practices, the Fund's ESG and Stewardship program, and members' long-term investment interests. Therefore, explicit divestment or exclusions from certain stocks and/or sectors are not a focus of the Fund's ESG and Stewardship program outside of the Socially Aware option. The exception to this approach is for companies that manufacture tobacco products which are screened out where practicable across the Fund.

## 5. Collaboration and networks

While the Fund is responsible for the implementation of its ESG and Stewardship program, participation in broader industry networks and forums can help advance its objectives in a collaborative manner.

Collaboration with other institutional investors can enable the Fund to have greater influence on ESG and Stewardship issues, exchange ideas and practical solutions with like-minded investors, and contribute to a larger and more effective investor voice on the ESG and Stewardship issues that can impact members' investment outcomes. The Fund is involved in a number of groups including the Australian Council of Superannuation Investors (ACSI) and the United Nations Principles for Responsible Investment (PRI).

## 6. Reporting and policy reviews

Public reporting on the ESG and Stewardship activities of the Fund provides transparency and confidence for members in the actions undertaken on their behalf. The Fund may measure progress on its ESG and Stewardship activities through independent assessments. The Fund reports on and discloses information about the ESG and Stewardship program in its Annual Report and on its website. The Fund may support voluntary reporting and disclosure initiatives subject to the time required, potential benefits, and whether participation will improve ESG industry standards and practices locally and globally.

The Investment Committee in consultation with the Board formulates AustralianSuper's policies on ESG and Stewardship matters. As in other matters, the Board may instruct the Investment Committee to develop ESG and Stewardship strategy in certain areas. The Fund's ESG and Stewardship Policy is reviewed and incorporated into the Investment Governance Framework every two years in line with the Framework review.

# Contact us

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