

Investing for a better future

Our Socially Aware option and ESG



At AustralianSuper, we're all about investing for a better future so members can feel more confident about theirs.

As an industry fund, we're run only to profit members. This means we put members first in everything we do. An important part of this is having a responsible approach to managing environmental, social and governance (ESG) issues.

ESG issues are important as they can impact the future value and investment performance of assets, which is important for members.

What's important to members is important to us

Many members have different ethical and social views, so it's important we consider these preferences in our investment choices. We conduct research with members every two years to ensure we keep up to date with the issues that are most important to them.

While most members are happy with the investment approach of the Balanced option, others told us they want to invest in a way that reflects their environmental and social values. In addition to achieving good returns, the top investment concerns for these members were coal and other fossil fuels, human rights, tobacco and weapons.

AustralianSuper Socially Aware – Australia's largest sustainable option*

AustralianSuper's Socially Aware investment option invested more than \$2.4 billion on behalf of over 38,000 members as at 30 June 2018.

It's designed to deliver medium to long-term growth and reflect members' key environmental and social concerns. It doesn't invest in companies that:



Directly own reserves in coal, oil, gas or uranium[†]



Have been flagged as having human rights, labour, environmental or governance controversies



Produce tobacco, cluster munitions or landmines



Have single gender boards ie. all male or all female boards (for ASX 200 companies)

[†] Reserves, in this context, are coal, oil, gas or uranium that can be extracted from known fields at an economical cost. It can still invest in companies that provide services to, buy, process or sell products from or invest in the excluded companies.

Transparency

Our screening approach for the Socially Aware option is different to many other funds. Some funds may have a broader range of screens but apply thresholds which allow investment up to a certain level.

The Socially Aware option doesn't invest in companies that directly own reserves of fossil fuels or uranium regardless of the size of their ownership. We believe this is the simplest, most transparent way of removing these investments at their source while enabling the option to meet its investment return objectives.

In addition to the values-based exclusions, our ESG and Stewardship Program is incorporated into investment decisions across all investment options. This is described overleaf.

Performance

In addition to shares, the Socially Aware option has a broad range of investments across property, infrastructure and fixed interest. This diversified strategy aims to grow members' retirement savings over the long term while reducing volatility.

Since its launch in May 2016, the Socially Aware option has been one of the top-performers in the SuperRatings Sustainable Balanced option investment universe. For the year to 30 June 2018, the option for super members returned 9.58% against the median option's return of 8.65%*. It has also outperformed the median balanced option return of 9.22% in the broader SR50 Balanced (60-76 Index) survey[†].

* SuperRatings Sustainable Fund Crediting Rate Survey June 2018.

[†] SuperRatings Fund Crediting Rate Survey – June 2018.

ESG and Stewardship Program

We believe investing in companies and assets with good ESG management provides better long-term returns for members.

We ensure ESG factors are considered before we make an investment and continues for as long as we keep it, whether we're investing directly ourselves or through external managers. We do this through our ESG and Stewardship Program.

Our ESG and Stewardship Program includes exercising our rights to vote on issues that impact members and meeting with company boards in person.

Our size and credibility enables us to effectively engage with companies. As Australia's largest super fund, we invest \$140 billion on behalf of 2.2 million members, making us a sizeable investor in Australian and international companies and other assets.

Direct engagement is important as it enables us to influence the make-up of company boards. In addition, we also closely scrutinise remuneration which is about getting the right alignment and structure in companies to optimise performance.

A+

AustralianSuper's rating for Responsible Investment in the 2017 PRI Global Assessment Report.

Here's how we're managing three important ESG issues facing investment owners.

Climate change

As climate change has the potential to affect the longevity of assets and their valuations, we integrate climate change risks into our investment and engagement process.

We support the goals of the Paris Agreement on climate change and a smooth and just transition to a low carbon economy. We actively engage with companies on climate change risks and opportunities to ensure they have appropriate governance and management plans in place.

We also advocate for the adoption of improved climate change reporting.

Every two years, AustralianSuper commissions environmental data experts Trucost to analyse the exposure to carbon in our Australian and international equity portfolios.

Carbon intensity

Our portfolios are less carbon-intensive than their market benchmarks

-14.75% Australian shares portfolio vs S&P/ASX 300 Index

-21.53% International shares portfolio vs MSCI ACWI ex AUS Index

Trucost 30 September 2018

Gender diversity

Gender diversity at board level is an essential element of good corporate governance and can lead to better long-term returns*.

Our policy of voting against some directors eligible for re-election in ASX 200 companies that have a single gender board has been in place since 1 January 2017. The policy is consistent with our expectation that ASX 200 companies achieve at least 30% female board representation in the medium term.

In 2016, we wrote to 17 ASX 200 companies with all male boards. As at June 2018, only two of these company boards remained without women on them. We're expanding our gender diversity policy to cover ASX 300 companies – currently 26 companies in this category don't have women on their boards. We're also aiming to increase the representation of women on ASX 200 boards to at least two directors.

Top 20

We ranked 18 out of the worlds largest 100 pension funds on climate change risk management and disclosure. 2018 AODP Global Climate Pension Fund Index

Human rights and labour supply chain

AustralianSuper advocates for, and engages with, companies to appropriately manage their domestic work force and labour supply chains and improve disclosures across industries.

Companies can be exposed to a range of operational, financial and reputational risks arising from inadequate management of their labour supply-chain. Issues can include child or forced labour, equality and discrimination and poor working conditions.

We identify which sectors are most likely to be impacted. Where material issues exist, we then assess companies on the management of their labour supply chain, which forms part of our decision to invest.

What we invest in

We never lose sight of the fact that it's members' money we're managing. We're the first Australian super fund to publish a full list of investments for all our options so members can see what they invest in.

You can explore your investments and find out more about our ESG and Stewardship Program at: australiansuper.com/investments

Comprehensive Responsible Investment Rating

One of only 12 super funds to receive the highest possible rating in the Responsible Investment Association Australasia's Benchmark Report 2018.

* Credit Suisse Research Institute, The CS Gender 3000: The Reward for Change – September 2016

We're here to help

Call **1300 300 273**
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