

## **First Super Voting Policy from INVESTMENT GOVERNANCE STATEMENT & MANUAL (20 Nov 2018)**

### **ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY**

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#### **ESG Considerations**

##### **(a) Introduction**

When making investment decisions, the Trustee and the Fund's Investment Managers must take into account the expected return and risk of investments, including the consideration of Environmental, Social and/or Governance ("ESG") issues.

##### **(b) Objectives**

The objective of this policy is to ensure that the Fund's assets are invested in a way that takes ESG issues into account via its Investment Managers. The manner and extent to which First Super incorporates ESG issues into its investment process and decision making will differ depending on each investment's characteristics, including the relevant investment structure(s).

The policy applies:

- Across all asset classes and investment types.
- Within the context of the size of First Super and its resources.

##### **(c) Beliefs**

The Trustee believes that consideration of ESG risks and opportunities is consistent with maximising the Fund's members' long-term investment returns while minimising risk, and is integral to fulfilling its fiduciary duty and meeting the sole purpose test, to act in the best interests of members. More specifically, the Fund believes that:

- Engaging with companies on ESG issues provides better outcomes however, there are limited circumstances when excluding certain investments is the most appropriate approach.
- ESG issues can materially impact on the financial performance of investee companies and entities held within the portfolio over time.
- ESG issues are not necessarily static and are likely to change over time. The risks and opportunities faced by First Super and its investment managers will change as ESG issues evolve.
- Companies and entities that adopt best practices across ESG issues will deliver better returns over the long-term.
- Strong labour rights, health and safety standards and supply chain management are a high priority for the Fund.
- Strong governance in investee companies and entities is a high priority for the Fund.
- Proper treatment of stakeholders by investee companies and entities is important because it contributes to better community and member outcomes and viable economies.
- The approach to responsible investing should be fit for purpose.

## **(d) Policy**

### **General**

The ESG Policy applies generally to all of the Fund's Investment Managers, across all asset classes, types of mandates, passive and active strategies and geographical locations.

The ESG Policy should be read in conjunction with First Super's Investment Governance Statement and the Fund's Corporate Governance Policy.

### **ESG Framework and Principles**

The ESG Policy is guided by the principles of the United Nation's backed Principles for Responsible Investment and the United Nations Global Compact (UNGC). The Principles mean operating in a manner that, at a minimum, meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption.

The UNGC Principles require businesses to:

#### **Human Rights**

Principle 1: Support and respect the protection of internationally proclaimed human rights; and

Principle 2: Make sure that they are not complicit in human rights abuses.

#### **Labour**

Principle 3: Uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: Eliminate of all forms of forced and compulsory labour;

Principle 5: Effectively abolish child labour; and

Principle 6: Eliminate discrimination in respect of employment and occupation.

#### **Environment**

Principle 7: Support a precautionary approach to environmental challenges;

Principle 8: Undertake initiatives to promote greater environmental responsibility; and

Principle 9: Encourage the development and diffusion of environmentally friendly technologies.

#### **Anti-Corruption**

Principle 10: Work against corruption in all its forms, including extortion and bribery.

### **Exclusions**

Generally, the Fund's external investment managers are not excluded from investing in a company or entity with ESG risks. The Fund may invest in a company with ESG risks where the return is sufficient to compensate for the risk, provided that this is considered as part of the investment manager's risk-return assessment.

In limited circumstances, the Fund may require its investment managers to exclude investments in a particular company or group of companies or entities. These circumstances include:

- If in the Fund's view the ESG risks to the company/asset, or to the Fund, are not, or cannot be, appropriately or adequately reflected in the risk-adjusted return;
- If the investment is inappropriate to the extent that it may have a negative impact on the Fund's reputation;

- If the investment could result in contravention of international treaties or conventions, including the UNGC, by the company or by the Fund; and/or
- In all these circumstances, all other strategies to appropriately and adequately reduce the ESG-related risks to the Fund have failed.

**(e) Implementation**

The Fund's strategy to outsource the investment management activities to external investment managers guides its approach to implementation of the ESG Policy. The Fund takes a practical approach to implementation which will be considered in the context of First Super's resources and its members' best interests. The Fund seeks to foster alignment between the ESG-related values of First Super with those of its external investment managers. As such, the Fund requires its (new and incumbent) investment managers to:

- Acknowledge and comply with this ESG Policy;
- Articulate its values, beliefs, principles and/or policies in regard to ESG related issues;
- Integrate the consideration of ESG issues into the investment management process, including (but not limited to) those issues highlighted in the Fund's ESG Policy;
- Encourage the investee companies and/or entities to comply with the ESG Principles, as defined in the Fund's ESG Policy and guided by the UNGC, on a best endeavours basis; and
- Report any ESG-related issues, actions and/or outcomes to the Fund on a regular basis, including highlighting and responding to any ESG-related concerns that may arise.

**(f) Responsibilities**

**CEO**

The CEO is responsible for ensuring that this policy is implemented and that the Investment Committee is informed of any concerns or ESG-related issues in regard to its implementation.

For new mandates with investment managers, the CEO will consider the extent to which the manager is willing and/or able to comply with the ESG Policy, as part of the due diligence and selection criteria.

- For existing mandates with investment managers, the CEO monitors compliance with the ESG Policy, and in the event of a potential concern in regard to a company and/or asset held within the portfolio, the CEO will liaise with the relevant investment managers to ascertain what level of response might need to be taken, including:
- Requesting the investment manager respond to any ESG-related concerns raised by the Fund in regard to the investee companies/assets held within the portfolio;
- Demonstrating that the investment manager has considered the issues as part of their risk/return analysis to a satisfactory level;
- Requesting that the investment manager confirms that the issue raised is in compliance with the ESG Principles as set out in this policy and, if not, what action the investment manager proposes to take to ensure that compliance is attained;
- Requesting that the ESG-related issue be included as part of the investment manager's reporting and disclosure activities in the future, to monitor ongoing compliance and/or improvement in practices.

### **Investment Officer**

The Investment Officer is responsible for instructing the Fund's investment managers on the requirements in regard to compliance with the ESG Policy, including:

- Providing the investment managers with a copy of the Fund's ESG Policy;
- Requesting that the investment managers are willing to comply with the policy on an ongoing basis;
- Requesting that the investment managers disclose their values, beliefs, principles and/or policies on an ongoing basis;
- Requesting that the investment managers disclose the actions taken to integrate and implement the ESG Policy on an ongoing basis;
- Requesting that the investment managers proactively disclose any material changes or changes that may impact its ongoing compliance with the policy.

### **Executive Officer**

The Executive Officer is responsible for ensuring that any ESG-related concerns are included in the CEO's report to the Investment Committee and Board.

### **Investment Committee**

The Investment Committee is responsible for overseeing compliance with the ESG Policy and ensuring that the best interests of its members are being managed appropriately by its external investment managers. In the event of an issue that requires further escalation due to ongoing non-compliance with the ESG Policy, the Investment Committee will take the following steps:

- Escalate the issue with the investment manager and request that they meet with the Investment Committee to discuss the issue of concern;
- Engage with the investment manager to respond to the ESG-related issues raised on an ongoing basis, should they show willingness and openness to such engagement;
- Should the investment manager show little willingness to engage and/or evolve their processes or practices in regard to managing ESG-related risks and opportunities in compliance with the Fund's ESG Policy, consider terminating the investment (or mandate) with the investment manager.

### **(g) Frequency of Action**

- Providing a copy of the ESG Policy and any future updates to investment managers → immediately upon Investment Committee approval.
- Requesting confirmation of investment manager compliance with the policy → immediately upon Investment Committee approval and on an ongoing basis, at least annually.
- Reporting to Investment Committee on any ESG-specific concerns or issues that arise → at each meeting, as appropriate.
- Escalating engagement with investment managers and/or considering termination → ongoing, as required.
- ESG Policy review → annually, by the Investment Committee.

## 1.1 Corporate Governance Policy — First Super's Voting Rights as a Shareholder

### (a) **Introduction**

First Super invests in listed equities through trusts and individually managed accounts ("IMAs").

Where First Super invests via IMAs it provides direction to the Investment Manager on how it wishes the voting rights to be exercised.

Voting on shareholder resolutions is informed by First Super's Investment Philosophy (refer section 1.1) in particular the following beliefs.

- We believe that over the long-term companies and organisations that adopt best practices across environment, social and governance deliver better returns.
- Good governance in investee companies is a high priority.
- Good treatment of stakeholders by investee companies is important because it contributes to better community and member outcomes and viable economies.

To inform First Super's position on voting and to enable investee company engagement, First Super is a member of the ACSI and subscribes to ACSI's investor voting service.

As at May 2018, the Fund had three IMAs; Perpetual, IFM and Eley Griffiths.

### (b) **Objectives**

The objective of this policy is to ensure that, where the Fund is in a position to vote on shareholder resolutions, it considers exercising that the voting entitlement.

### (c) **Policy**

#### *General*

First Super's default position will be to vote its listed Australian company shares in accordance with ACSI's advice (on S&P/ASX 200 companies) and will instruct managers accordingly.

A Director, the CEO or one of First Super's Investment Managers may have a different view to ACSI on a particular resolution proposed by a company. In those circumstances, the Co-Chairpersons will be advised of the issue, and First Super's position on the particular resolution will be resolved by them, or by Circular Resolution of the Investment Committee initiated by the Co-Chairpersons should they elect to take that course.

Where ACSI has not provided advice in respect of particular company resolutions, advice will be sought from IFM or, failing that advice being available, First Super's Investment Managers, and First Super's votes will be cast in accordance with that advice, subject to the above criteria.

#### *Remuneration*

First Super's Board has endorsed the Investment Committee's concern regarding burgeoning directors' fees and executive remuneration being paid by Australian listed companies, both in terms of annual increases and overall quantum, and the potential negative impact on a company's public image, staff morale, profitability, share price and returns to shareholders.

The default position for voting First Super's shares in relation to the annual Remuneration Reports of Australian listed companies is to vote against adopting a Report if the combined total of the company CEO's fixed salary and maximum cash bonus entitlement and/or the level of directors' fees increased over the previous financial year by a greater percentage than the increase in Average Weekly Ordinary Time Earnings (AWOTE) for the year ended 30 June prior to the date of the company's Annual General Meeting.

First Super's shares are to be voted against adopting a Remuneration Report in any event if ACSI's advice is to vote against, whatever the increase in the CEO's salary and cash bonus entitlement or the increase in the level of directors' fees. However, co-Chairpersons are delegated the authority to approve a vote for adopting a company's Remuneration Report, even where the CEO's combined fixed salary and cash bonus entitlement and/or the level of directors' fees increased over the previous financial year by a greater percentage than the increase in AWOTE, if they believe that there are reasonable and acceptable special circumstances that led to that outcome, as advised by ACSI or the First Super CEO.

### **Labour Relations, health and safety and supply chain issues**

First Super's Board has endorsed the Investment Committee's prioritisation of strong standards in labour relations, health and safety and supply chain management as defined in its ESG Policy. The Fund's shares are to be voted in accordance with these principles and standards. The Fund will seek advice and input from ACSI and other relevant parties on these issues to guide its voting decisions on resolutions that enhance standards and industry practice.

#### **(d) Responsibilities**

##### **CEO**

The CEO is responsible for ensuring that this policy is implemented and that the Investment Committee is informed of First Super's voting actions.

The CEO will confirm First Super's position and instruct the Trustee office how to exercise the Fund's voting rights through ProxyEdge (the Custodian platform for proxy voting).

##### **Investment Officer**

The Investment Officer is responsible for reviewing ACSI's voting alert to determine:

- if the Fund holds shares in the company;
- First Super's position in relation to the remuneration report; and
- ACSI's other recommendations and informing the CEO of the outcome of the review.

The Investment Officer is also responsible for maintaining a record of ACSI's recommendations, the Australian Shareholders' Association recommendations and how the Fund has voted which he/she is responsible for uploading to the Fund's website at the end of each month.

The Investment Officer is also responsible for preparing a report for inclusion in the CEO report identifying where First Super has voted against an ACSI recommendation and the reasons why.

The Investment Officer is also responsible for sending a fortnightly update to directors on forthcoming annual general meetings for those companies in which First Super holds shares via IMAs.

Directors are responsible for advising the CEO about issues in relation to those companies which may be material to how First Super exercises its voting rights. In such circumstances the CEO will consult with the Co-chairs on an appropriate course of action.

### **Executive Officer**

The Executive Officer is responsible for ensuring that the record is included in the CEO's report to the Investment Committee and Board.

#### **(e) Frequency of Action**

- Reviewing ACSI reports and recommendations → immediately upon receipt.
- Uploading the Fund's voting record → at the end of each month.
- Reporting to Investment Committee and Board → at each meeting.