



Responsible investment policy

November 2019

Overview

This Policy forms part of VicSuper’s Investment Governance Framework (IGF) and should be read in conjunction with all related documents detailed in the umbrella document labelled “1.0 Investment Governance Framework Overview”.

This Policy aims to:

- Document the responsible investment beliefs that direct the Fund’s approach to responsible investment; and
- Document the Fund’s approach to responsible investment including ESG integration, active ownership, investing in sustainable outcomes, and member choice.

This Policy applies to:

- the Trustee;
- the Investment Committee;
- the Investment Management Committee; and
- Management.

1 What is Responsible Investment

Responsible investment is an approach to investing that incorporates environmental, social and governance (ESG) factors into investment decisions to better manage risk and generate sustainable, long-term returns.

ESG covers a broad range of factors that may include, but not be limited, to the following:

Environment (E)	<ul style="list-style-type: none"> • Climate change • Pollution and waste • Resource depletion 	<ul style="list-style-type: none"> • Biodiversity • Land use changes
Social (S)	<ul style="list-style-type: none"> • Human rights • Labour rights • Health & safety • Human capital management 	<ul style="list-style-type: none"> • Diversity • Relations with local communities • Consumer protection
Governance (G)	<ul style="list-style-type: none"> • Board structure, size, diversity, skills and independence • Executive pay • Shareholder rights 	<ul style="list-style-type: none"> • Business ethics, bribery and corruption • Risk management

2 VicSuper’s Responsible Investment Commitment and Beliefs

We are committed to responsible investment of our members’ retirement savings as we believe this is both consistent with our objective of optimising members’ retirement savings and incomes and positively contributes to the world our members live and will retire in.

Responsible investment beliefs direct our approach to responsible investment and form part of our broader investment beliefs.

The Trustee’s core responsible investment beliefs are articulated in the document titled “2.1 Investment Mission and Beliefs Statement”.

The following responsible investment beliefs provide additional direction to our responsible investment approach.

Belief	Implications
<p>Environmental, social and governance (ESG) factors have the potential to be material to investment risk and return and may not be efficiently priced by markets. Considering ESG factors may lead to more complete analysis and better informed investment decisions.</p>	<p>We will explicitly include ESG factors into investment analysis where relevant.</p> <p>We will incorporate ESG objectives and requirements into investment mandates and monitor investment managers accordingly.</p>
<p>As a long-term investor, we believe that active ownership has the potential to positively influence company behaviour and performance and can therefore contribute to long term shareholder value.</p>	<p>We will use the tools of engagement and proxy voting to influence company behaviour.</p>
<p>Engagement, rather than divestment, provides the on-going ability to have a positive influence on our investments.</p>	<p>We have a preference for using company engagement to effect change rather than divesting.</p> <p>Tobacco is an exception to this approach.</p>
<p>As a universal investor invested in a broad range of global companies and other assets we have a vested interest in the long term sustainability of the global economy and a responsibility to contribute to the long-term health and stability of the market as a whole.</p>	<p>We will advocate for policy that supports well-functioning and well governed social, environmental and economic systems.</p>
<p>Members' best interests are served through our fiduciary duty. Member outcomes will also be impacted by the state of the environment and the society into which they retire.</p>	<p>We will seek out member expectations with regard to responsible investment.</p> <p>We will use the UN Sustainable Development Goals as a tool for investment decision making, monitoring and reporting.</p> <p>All other things being equal, we will favour investments which contribute to positive environmental and social outcomes, and avoid investments which have the opposite impact.</p>
<p>Climate change has the potential to have a material negative impact on society and the environment. This will provide both opportunities and potential risks for the investment portfolio. We have a fiduciary duty to manage the financial risk due to climate change in our portfolio.</p>	<p>We support the objective of the Paris Agreement to limit global warming to well below 2 degrees.</p> <p>We will align our investments with a pathway towards a low carbon economy in a way that is consistent with a just transition.</p>

3 VicSuper's Approach to Responsible Investment

Our beliefs are implemented through an approach based on four pillars:

- **ESG Integration** – integrating environmental, social and governance considerations into the investment process
- **Active Ownership** – exercising the rights and responsibilities of ownership on behalf of members
- **Investing in Sustainable Outcomes** – making investments that contribute to the type of world our members want to live and retire in
- **Member choice** – enabling members to invest their superannuation savings in line with their values

We undertake responsible investment for all asset classes with the exception of Cash. For all asset classes, we select investment managers who integrate ESG factors into their investment decisions. Further, we classify a portion of our Private Equity, Property and Infrastructure, as well as all of our Agriculture investments, as investing in sustainable outcomes.

4 ESG Integration

To protect the long term value of our members' retirement savings we integrate ESG factors into our investment processes across the investment portfolio (with the exception of Cash).

Because VicSuper uses external investment managers to invest on its behalf, our approach to ESG integration is part of the selection, appointment and monitoring of investment managers. VicSuper does not impose a set approach to ESG integration, therefore the approach to ESG integration will vary by manager.

Responsible investment is integrated into the investment manager selection process via VicSuper's supplier due diligence process. All potential managers are required to respond to asset class specific due diligence questions relating to their responsible investment commitment, approach, implementation and disclosure. While ESG information is only one component of the selection process, responses are assessed and unless ESG is deemed not relevant to a particular strategy, a satisfactory ESG score needs to be achieved by the manager for them to be considered for appointment.

Responsible investment is integrated into the investment manager appointment process via specific ESG clauses within the standard investment manager agreement. These include requirements to: demonstrate how ESG factors are integrated into investment decision-making; engage in stewardship; and provide disclosures on ESG related issues.

Responsible investment is integrated into the investment manager monitoring process through a requirement for quarterly ESG reporting as well as a discussion of ESG issues, as relevant, at regular review meetings with managers.

5 Active ownership

We believe that active ownership (incorporating company engagement and proxy voting) can positively influence investee company behaviour and performance and support the achievement of long-term shareholder value.

We seek to influence corporate governance practices and how companies manage social and environmental risks in line with our priority objectives of:

- **Governance** – promote best practice corporate governance and culture, and encourage companies to maintain focus on shareholder value creation and risk reduction
- **Climate Change** – support the objectives of the Paris Agreement to limit global warming to well below 2 degrees and move towards a low carbon economy in a way that is consistent with a just transition
- **Workforce and Human Rights** – work to eliminate Modern Slavery and promote the protection of worker and human rights in the operations and supply chains of our investments
- **Gender equity** – promote gender equity, diversity and inclusion
- **Social License** – promote consideration of the interests of a range of stakeholders and avoid significant environmental and societal harm

We undertake company engagement through service providers because we believe it maximises our voice and influence.

As a shareholder and co-owner of the companies we invest in we recognise that we have rights and responsibilities and commit to voting on all practicable resolutions at shareholder meetings.

We also undertake advocacy with a view to influencing improvements in the alignment of the operation of the financial system and regulatory policy with the interests of long-term investors. We do this through submissions to government or regulators, contribution to research and industry and media campaigns.

For further detail on VicSuper’s approach to company engagement and proxy voting, please refer to the Policy document “3.8 Engagement & Proxy Voting Policy”.

6 Investing in Sustainable Outcomes

VicSuper’s primary focus is on optimising members’ long term investment returns and, hence, retirement income. However, we also acknowledge that the welfare of members in retirement will be influenced by the environmental and social amenity of the world in which they live. Accordingly, other things being equal, we will favour investments which contribute to positive environmental and social outcomes, and avoid investments which have the opposite impact.

7 Member choice

We recognise that our members’ values, preferences and attitudes are diverse. Being informed about member expectations on responsible investment is an integral part of our approach.

For members seeking to align investment of their superannuation savings with their social and environmental values we offer a Socially Conscious investment option.

8 Exclusions and Divestment

We believe that company engagement provides the ongoing ability to positively influence our investments. Exclusion or divestment from particular companies or sectors is therefore not a focus of our responsible investment approach outside of the Socially Conscious investment option.

Tobacco is an exception to this approach. VicSuper’s Board resolved to divest the Fund of tobacco manufacturing stocks¹ in 2013.

VicSuper does not currently apply any other exclusions. Any future decisions to exclude particular companies or sectors would be made taking into account member expectations; evidence of severe environmental, social, or health harm; consequences of divestment including peer risk; and, whether engagement would likely be effective.

1. In the limited cases where VicSuper invests in pooled trusts, exclusion of tobacco production is on a best endeavours basis.

9 Collaboration

While we are accountable for our own responsible investment program, participation in industry networks and forums can help us to maximise our voice and influence on responsible investment issues. We are involved in a number of groups including:

- Australian Council of Superannuation Investors (ACSI)
- Carbon Disclosure Project (CDP)
- Investor Group on Climate Change (IGCC)
- Responsible Investment Association Australasia (RIAA)
- Tobacco Free Portfolios
- United Nations supported Principles for Responsible Investment (PRI)
- Australian Sustainable Finance Alliance (ASFI)
- 30% Club

10 Reporting

Public reporting on the responsible investment activities of the Fund provides transparency and confidence for members in the actions undertaken on their behalf.

We measure progress on our responsible investment activities through independent benchmarking assessments including the PRI annual assessment.

We report on our responsible investment activities through our Annual Report and on our website.

11 Responsibilities

The following responsibilities apply to the implementation of this Policy.

Role	Responsibilities
Trustee	<ul style="list-style-type: none"> • Review and approve this policy
Chief Investment Officer (CIO)	<ul style="list-style-type: none"> • Oversee implementation of this policy • Provide updates to the Executive team and Trustee on any ESG issues that may impact the Fund.
VicSuper Investments team	<ul style="list-style-type: none"> • Monitor investment manager ESG performance • Manage relationships with relevant service providers • Investment manager ESG due diligence • Reporting and disclosure under this policy • Collaborating with relevant industry networks
Corporate Responsibility team	<ul style="list-style-type: none"> • Collaborating with relevant industry networks
Investment Managers	<ul style="list-style-type: none"> • Integrating ESG factors into investment analysis and decision making

12 Definitions

Active ownership:

refers to the use of the rights and position of ownership to influence the activity or behaviour of investees. For listed equities, active ownership involves engaging with investee companies, and voting eligible shares

Corporate Responsibility team:

refers to the corporate responsibility staff within the Marketing, Insights and Experience team.

Divestment:

refers to selling investments in a particular company or sector

Engagement:

refers to meeting with representatives of an investee company, usually members of a Board or Executive, in order to advocate for change on behalf of members. Engagement is often related to corporate governance practices and how companies manage social and environmental risks.

Environmental, Social and Governance (ESG) Integration: refers to the systematic and explicit inclusion of environmental, social and governance factors or issues into investment analysis and decision making

Exclusion:

refers to excluding companies or sectors from the investable universe, most often based on ethical values

Executive:

refers to the Chief Executive Officer (CEO) and all of that person's direct reports including the Chief Financial Officer (CFO), Chief Investment Officer (CIO), Chief Risk Officer (CRO), and General Counsel and Company Secretary.

Fund:

refers to VicSuper Fund.

Investment beliefs:

refers to judgements that have been collectively agreed by the Trustee about how financial markets operate and how VicSuper should approach the task of investment. Such beliefs are based on academic literature, investment research, and/or experience.

Investment manager:

refers to an external investment manager appointed by VicSuper to manage assets or overlays on its behalf.

Investment option:

refers to each member investment choice (MIC) investment strategy approved by the Trustee, specifically Cash, Term Deposit, Capital Secure, Capital Stable, Balanced, Socially Conscious, Growth (MySuper), Equity Growth, and Australian Shares.

Investments team:

refers to the Chief Investment Officer (CIO) and all of that person's direct and indirect reports.

Modern slavery:

refers to any situations of exploitation where a person cannot refuse or leave work because of threats, violence, and coercion, abuse of power or deception. This includes slavery, servitude, child labour, forced labour, human trafficking, debt bondage, slavery-like practices, forced marriage, and deceptive recruiting for labour or services.

Proxy voting:

refers to voting on resolutions proposed at shareholder meetings on behalf of fund members. Where voting is conducted electronically, rather than through attendance of meetings, this is done through "proxy" ballots.

Responsible investment:

refers to an investment approach that incorporates environmental, social and governance (ESG) factors into investment decisions to better manage risk and generate sustainable, long-term returns.

Trustee:

refers to the Board of Trustees of VicSuper Pty Ltd, the corporate trustee of VicSuper Fund.

Universal investor:

refers to a large (often institutional) investor holding a highly-diversified and long-term portfolio that is representative of global capital markets such that the investor has a financial interest in the wellbeing of the economy as a whole.

Get in touch – we're here to help

Call our Member Centre

1300 366 216 and speak to a VicSuper super consultant between 8.30am and 5pm, Monday to Friday

Visit us

Bendigo | Blackburn | Geelong | Melbourne CBD | Traralgon

Monday to Friday
8.30am to 5pm

To make an appointment to see a VicSuper financial planner call **(03) 9667 9200**

Send us a fax

(03) 9667 9610

Write to us

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Melbourne VIC 3001

Browse our website

vicsuper.com.au

Download our app

vicsuper.com.au/mobileapp

Manage your account online

Simply visit our website to login

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