

# Responsible investment and proxy voting policy

This document outlines our responsible investment and proxy voting policies. Read our *Responsible investment reports* for six-monthly updates on the activities we've undertaken.

## Investing in quality

We're committed to providing greater retirement outcomes for our members and we have a fiduciary duty to act in their best financial interests. In line with this duty, we focus on investing in quality. We believe that if we're able to invest in quality companies at a reasonable price, they will provide sustainable outperformance over the long term.

Examining and assessing how a company views and manages environmental, social and governance (ESG) issues is another lens by which we view how a company manages risks and responds to changing societal expectations.



## We're a responsible and active investor

As part of our approach to responsible investing, we consider ESG factors across all of our investments and seek to understand all opportunities and risks (including ESG factors) at all levels. We believe that good companies with good corporate behaviour make for better investments, as these companies tend to manage other aspects of their business well.

Any investment we make in a company is predicated on sound governance, quality management and strong business strategy. We undertake extensive engagement with companies and incorporate ESG considerations as part of our investment management and decision making process.

In the event that governance, management or strategy is compromised, we take steps to protect member interests—including active engagement and, potentially, divestment.

UniSuper is not an 'activist' fund. Our investment process is focussed on our fiduciary duty to act in the best financial interests of our members. The integrity and independence of our process cannot be compromised by external parties or influences.

## Holistic approach to responsible investment

As part of our responsible investment approach:

- We're an active owner:
  - We exercise all proxy votes for listed Australian and international share holdings.
  - We actively engage with investee companies on a range of commercial, strategic and ESG matters.
- We consider ESG as part of our day to day investment management process. For example:
  - ESG due diligence on new investments.
  - Ongoing monitoring of ESG performance of investee companies.
  - ESG reviews of external fund managers.
  - Option-wide assessment of ESG risks in portfolios.

Our investment team regularly presents to and updates the Investment Committee (a subcommittee of our Board) on ESG risks to the overall fund. This is done from many perspectives, including assessing climate change risks and potential impacts to assets and companies, which could have a material effect on long term investment returns.

In reporting on our ESG approach, practices and performance, we have referenced the [UN Principles for Responsible Investment](#):

- Incorporating ESG issues into the investment analysis and decision making process.
- Active ownership.
- ESG disclosure by investee companies.
- Collaboration.
- Reporting on our activities.

## Incorporating ESG issues into the investment analysis and decision making process

We consider ESG issues as part of our investment analysis, management and decision making process. These activities encompass both our in-house (internal) investment management activities as well as the oversight of external investment management and the investments made on our behalf.

### INTERNAL INVESTMENT MANAGEMENT

Our in-house investment management team manages the majority of our assets, providing direct line of sight and control regarding ESG matters for these companies. ESG is an integral part of our internal investment management and decision making processes, and it encompasses a range of activities as described below.

#### Pre investment due diligence

Before making an investment, we conduct ESG analysis in addition to the fundamental/financial investment analysis. In doing so, we seek to identify and understand what ESG risks the company faces and how it is managing these risks, and if the price reflects these risks. This ESG analysis may be the trigger for more analysis, a stronger investment case or for engagement with the company.

Further due diligence includes the following for unlisted assets:

- ESG risk analysis (including climate risk)
- Ownership structure and rights: What rights do we have as owners? Do we get board seats?
- Project risk assessment: How is the project managed? When do we take ownership? What recourse rights do we have if the project is not completed?
- Counterparty assessments: What is the counterparties' alignment on ESG considerations?

- Social licence to operate assessment: What controversies have the assets been involved in? What political risks impact this project?

For fixed income (bonds), it includes:

- ESG risk assessments.
- Green bonds: What is the structure? How is impact being measured? Are we comfortable with the environmental and social controls in the projects?

### EXTERNAL MANAGER SELECTION AND MONITORING

Our internal investment team conducts all manager selection and appointment activities and does not use an asset consultant. Since 2007, we directly assess the ESG capabilities of managers both prior to being appointed and on an ongoing basis after they have been appointed.

The ESG clauses in our Investment Management Agreements (IMAs) are limited to:

- proxy voting – managers must vote their holdings. We believe that active ownership (including proxy voting) is an important tool for managers and want our managers to vote on their portfolios, and
- tobacco screen – we have a fund-wide exclusion on tobacco.

Other ESG monitoring activities include:

- routinely raising ESG questions and queries with our managers. These queries may be general in nature or may pertain to the manager's specific portfolio and constituent stocks
- assessing their ESG performance as a part of our annual reviews, and
- conducting a detailed ESG deep dive biannually, across all incumbent equities and fixed income managers.

### WHOLE OF PORTFOLIO ESG ANALYTICS

We use a range of tools to evaluate our portfolios from an ESG perspective. We routinely analyse our investment options to understand what ESG risks might be present. Risks that we identify include companies that may have poor human rights practices in place, significant environmental controversies or issues, and those with or exposure to controversial weapons.

The majority of our investments (>90% fund-wide) are in listed equities and fixed income, where there is comprehensive ESG data availability for the majority of our holdings. We use this analysis to inform internal and external reports (such as our *Climate Related Financial Disclosures*), presentations to the Investment Committee, and to inform investment decisions.

### OTHER ESG CONSIDERATIONS

We also consider various ESG themes. Climate risk and carbon exposure is one such issue that we have considered from a variety of angles over the last decade. Modern slavery, human rights and how systematic disadvantage can be improved through responsible sourcing policies is another area of ongoing focus for our ESG team.

## Active ownership

---

We're committed to being an active shareholder. This means we proactively engage with investee companies on a range of commercial, strategic and ESG related matters. We also seek to exercise all proxy votes for listed Australian and international share holdings.

### DIRECT ENGAGEMENT

#### Listed company engagement

Engagement is a key component of our active ownership approach. We and our portfolio managers engage with company CEOs and chairs with respect to ESG and broader commercial matters.

#### Unlisted company engagement

We take an active interest in our unlisted investments. We have the right to appoint nominee directors to the boards of our unlisted investments. We routinely meet with our nominee directors to discuss ESG issues and meet with the management teams of these unlisted assets. Particular areas of ESG focus include safety, climate risk management and adaptation, and maintaining our ownership rights.

#### Private equity

We have a small allocation to private equity (PE) (less than 0.5% of the Fund), and have not committed to any new private equity funds since 2008. Accordingly, we take a light touch approach to engagement.

### THIRD PARTY ENGAGEMENT

We will engage with companies through third party organisations like the Australian Council of Superannuation Investors (ACSI), CGI Glass Lewis or other portfolio managers. Using third parties provides greater scope and scale of engagement.

### KEY ENGAGEMENT ACTIONS

#### ESG disclosures

We're keen to ensure that the companies we invest in are transparent and open in communicating their ESG and sustainability performance. This supports companies' focus on continuous improvement and provides greater confidence in their performance and approach.

Company disclosures are also a key input into our sustainable portfolios. Where companies have limited or poor disclosures, it is sometimes not because they're poor at sustainability—rather, they may not have had a focus on reporting how they manage ESG. By providing better disclosure, more companies are eligible for inclusion in our investable universe and this has the potential to lead to better return outcomes for members who invest in our sustainable investment options.

Companies often engage us as part of their stakeholder engagement process to help determine the nature and scope of their ESG/sustainability reporting.

## Collaboration and promotion of ESG and responsible investment

---

The ESG community is highly collaborative and recognises that when we work together, our impact is significantly enhanced. UniSuper's approach to collaborative initiatives is that we will be active participants in a small number of them and report on them in our *Responsible investment reports*.

### UNIVERSITY RESEARCH REGARDING SUSTAINABILITY REPORTING

We participate in a range of university research projects regarding ESG / responsible investment related matters.

## Reporting our activities

---

We're committed to being transparent and open about our approach to ESG and to reporting on the work we do in this area. We provide a six-monthly summary of our activities in our *Responsible investment reports*.

## Member choice

---

In addition to integrating ESG considerations in investment decisions across the entire portfolio and screening out tobacco from the fund, we also provide for member choice.

We understand that many members have a range of different values and that it is important to consider these preferences in the investment options that we have on offer.

For members who want the choice to invest in options that not only integrate ESG into the investment decision-making process, but also apply more specific 'screening' criteria, we offer:

- Two sustainable investment options—Sustainable Balanced and Sustainable High Growth. These options:
  - apply a negative screen that exclude alcohol, gaming, weapons and fossil fuel producers and explorers, and
  - apply a positive screen to invest in companies that are assessed as having good ESG characteristics.
  - The Sustainable Balanced option also includes a fixed income allocation, which invests in Australian Government and green bonds.
- The Global Environmental Opportunities option. This option excludes the sectors noted above and only invests in companies that derive at least 50% of their revenues from alternative energy, clean technology, water infrastructure / technologies, green buildings and waste management and pollution control.

## Proxy voting

---

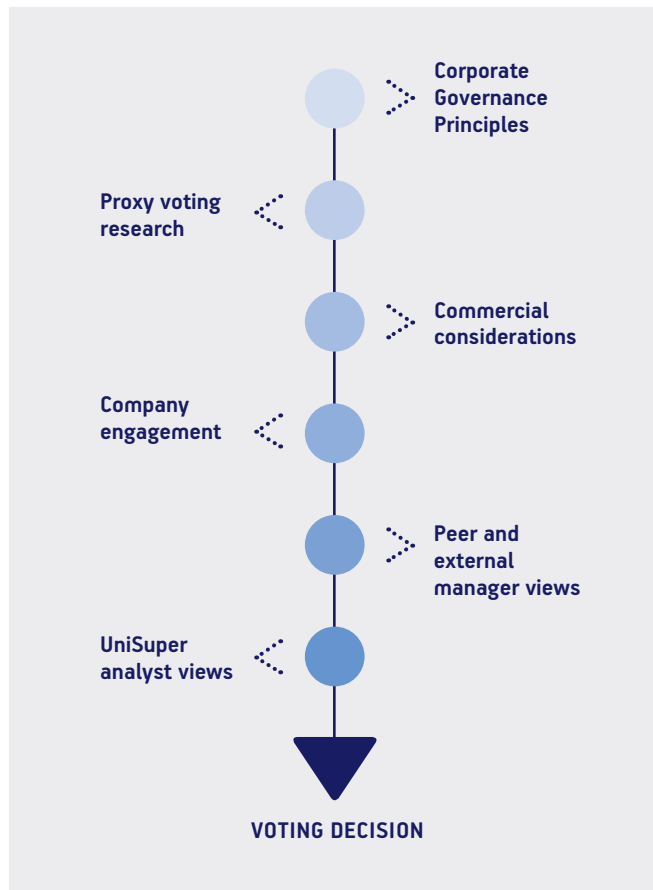
As an active owner, we exercise all proxy votes for listed Australian and international share holdings.

## AUSTRALIAN PROXY VOTING PROCESS

### Internal management

- Voting recommendations are considered and assessed on a case-by-case basis.
- Based on internal review, we determine how we will vote for our own holdings.
- If we have a strong view, external managers will be notified how to vote.

The following schematic shows what goes into how we make voting decisions:



### External management

- Our specialist proxy voting advisor provides 'how to vote' recommendations.
- All Australian fund managers we appoint must vote 'FOR' or 'AGAINST' and are not entitled to 'ABSTAIN' unless there is a conflict of interest (or specific approval to do so has been granted).
- Appointed managers have the discretion to determine how they vote the stocks within their portfolios. However, we retain the right to specifically instruct our fund managers how to vote and we regularly exercise it.

## INTERNATIONAL PROXY VOTING PROCESS

### Internal management

- We engage Glass Lewis to provide proxy voting advice and execute votes on our behalf. Glass Lewis has a formal arrangement with ACSI to ensure that the corporate governance principles align with domestic priorities.
- We monitor how Glass Lewis is voting on our portfolios but don't currently apply the same level of scrutiny as we do domestically
- We also routinely engage with our international managers to obtain their views regarding voting issues pertaining to holdings in their portfolios.

### External management

All fund managers we appoint must vote 'FOR' or 'AGAINST' all resolutions and are not entitled to abstain unless it is a requirement of the local market (i.e. it is not possible to vote AGAINST) or there is a conflict of interest (or specific approval to do so has been granted).

Appointed managers have the discretion to determine how they vote the stocks within their portfolios. Internationally, while we retain the right to specifically instruct our fund managers how to vote, we rarely exercise it.

## SHAREHOLDER RESOLUTIONS

Shareholder resolutions are becoming a more common tool when engaging with companies across the world. When determining how to vote on shareholder resolutions, we consider the following factors:

- Overriding legal framework in the jurisdiction. In Australia, there is no provision for shareholder resolutions in the Australian Corporations Act. Most Australian proposals request an amendment to the constitution to facilitate shareholder resolutions, in addition to the specific request. We collaborate with shareholder groups (ACSI in Australia; the Asian Corporate Governance Association [ACGA] in Asia) to try to encourage appropriate mechanisms are in place.
- What the company has already committed to, and is doing. If a company is already meeting the substance of the request, our practice is to support the company (i.e. vote against the shareholder resolutions). We will always urge companies to be public about their actions and commitments but will rely on the word of the company through private engagement.
- The substance of the request. We will not support frivolous or vexatious resolutions. In some jurisdictions, shareholder proposals are not subject to any oversight, which means, for example, that there can be proposals regarding the food provided at the AGM.

Since 2018, we report on how we voted for all shareholder resolutions.

This information is of a general nature only and includes general advice. It has been prepared without taking into account your individual objectives, financial situation or needs. Before making any decision in relation to your UniSuper membership, you should consider your personal circumstances, the relevant product disclosure statement for your membership category and whether to consult a licensed financial adviser. This information is current as at October 2019 and is based on our understanding of legislation at that date. Information is subject to change. To the extent that this fact sheet contains information which is inconsistent with the UniSuper Trust Deed and Regulations (together the Trust Deed), the Trust Deed will prevail.

Issued by: UniSuper Management Pty Ltd ABN 91 006 961 799, AFSL No. 235907 on behalf of UniSuper Limited the trustee of UniSuper, Level 1, 385 Bourke Street, Melbourne Vic 3000.

Fund: UniSuper, ABN 91 385 943 850

Trustee: UniSuper Limited, ABN 54 006 027 121, AFSL No. 492806

Date: October 2019 UNISINV00016 1019