

# Responsible investment approach

This document outlines our responsible investment approach. Read our *Responsible investment report* for more detail on the activities we've undertaken over the past six months.

## Investing in quality

As a fund, we focus on investing in quality—and 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.



## Holistic approach to responsible investment

Across all of its investments, UniSuper seeks to be a responsible investor and considers ESG risks as part of its investment approach.

As part of this approach, we:

- are an active owner.
  - We seek to 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 related matters;
- consider ESG as part of our day to day investment management process. For example:
  - ESG due diligence on new investments
  - Fund manager ESG reviews via formal surveys and ad hoc queries and due diligence
  - Option-wide assessment of ESG risks in portfolios, e.g. climate related financial risks
- collaborate with peers, other investors and industry groups to ensure appropriate standards are in place regarding ESG at a market wide level.

As part of this approach, our investment team regularly presents to, and updates, the Investment Committee (a sub-committee of the UniSuper Board of Trustees) and hence the Board, on ESG risks to the overall fund. This is done from many ESG perspectives, including assessing climate change risks and potential impacts to various assets and companies, and their materiality to overall investment returns over the long term.

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
- Member choice

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

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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
- Ownership structure and rights: Do we get board seats? What rights do we have as owners?
- Project risk assessment: how is the project being managed and when do we take ownership? What recourse rights do we have if the project is not completed?
- Counterparty assessments: What is their alignment with respect to ESG considerations?
- Social licence to operate assessment: What are the political risks associated with this project? If it's under construction, have there been protests or major objections?

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

UniSuper's 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-related 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
- include ESG as a part of our annual manager reviews, and
- detailed ESG deep diving bi-annually across all incumbent equities and fixed income managers and assess their ESG performance.

### WHOLE OF PORTFOLIO ESG ANALYTICS

We use a range of tools to evaluate our portfolios from an ESG perspective. We routinely analyse UniSuper's investment options to understand what ESG risks might be present. Risks that we identify include human rights, environmental issues 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 UniSuper's *Climate Related Financial Disclosures*), presentations to the Investment Committee, and to inform investment decisions.

### OTHER ESG CONSIDERATIONS

In addition to the routine ESG analysis that we conduct, 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

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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 its unlisted investments. We have the right to appoint our own nominated 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 has 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 about their ESG and sustainability performance. This goes towards ensuring greater confidence in a company's performance and approach and ensures companies remain focused on continuous improvement.

Company disclosures are also a key input into our sustainable portfolios. Where companies have low or poor disclosures, it is sometimes not because they are a poor at sustainability, rather they are not good at reporting how they manage ESG. By providing better disclosures, more companies are eligible for inclusion in our investable universe, and this has the potential to lead to better return outcomes for members who are in the Sustainable options.

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

### Proxy voting

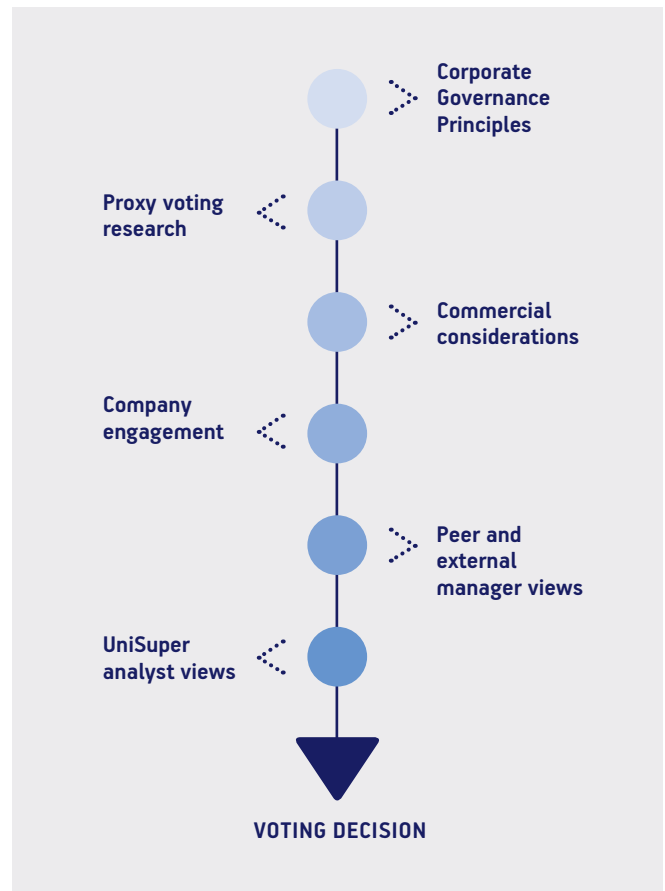
As an active owner, we seek to exercise all proxy votes for listed Australian and international share holdings.

#### AUSTRALIAN PROXY VOTING PROCESS

##### Internal management

- Voting recommendations are considered and assessed on a case-by-case basis.
- Based on internal review, UniSuper determines how it 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

- UniSuper's specialist proxy voting advisor provides 'how to vote' recommendations.
- All Australian fund managers appointed by UniSuper 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, UniSuper retains the right to specifically instruct its fund managers how to vote (a power which is regularly exercised).

#### INTERNATIONAL PROXY VOTING PROCESS

##### Internal management

- We have engaged Glass Lewis to provide us with proxy voting advice and to execute the 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, however do not 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 appointed by UniSuper 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 UniSuper retains the right to specifically instruct its fund managers how to vote.

## 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 the following factors are considered:

- Overriding legal framework in the jurisdiction
  - Australia: there is no provision for shareholder resolutions in the Australian Corporations Act. As such, 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 – i.e. 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.

Commencing with the report for 1 July 2018 – 31 December 2018, we will report on how we voted for all shareholder resolutions.

## 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 collaborative initiatives, which will be reported in our RI reports.

## UNIVERSITY RESEARCH REGARDING SUSTAINABILITY REPORTING

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

## Reporting our activities

We're committed to being transparent and open regarding our approach to ESG and to reporting on the work we do in this area. A summary of our activities will be provided every six months 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 and 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

In 2017 we started to fully manage these options internally. So far, this has improved the application, consistency and alignment of our ESG and financial criteria to our investments.

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 May 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.

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