

Environmental, Social and Governance Policy (IGF06)

Business Unit: Investments

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Superannuation Fund Pty Limited
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1. Introduction

- 1.1 This Environmental, Social and Governance Policy (Policy) is designed to enable Motor Trades Association of Australia Superannuation Fund Pty Limited (Trustee) to appropriately manage the governance of its investment activities in its capacity as trustee of the MTAA Superannuation Fund (Fund). The Trustee is both a registrable superannuation entity licensee (RSE Licensee) and the holder of an Australian financial services licence (AFS Licensee). As a trustee, the Trustee has an overarching obligation to act in the best interests of the beneficiaries of the Fund.
- 1.2 This Policy forms part of the Trustee's Investment Governance Framework (Framework) and should be considered in conjunction with the other policies comprising that Framework, in particular the Investment Policy Statement (IGF02).
- 1.3 It should also be considered in the context of the Trustee's Governance framework.

2. Policy goals

- 2.1 The primary investment purpose of the Fund is to grow member savings by delivering long term investment returns above the rate of inflation to enable Fund members to improve their financial security in retirement. The Trustee aims to deliver these returns with stability over the medium to long term (Statement of Investment Beliefs Investment Mission).
- 2.2 In pursuing the investment mission, the Trustee has a fiduciary responsibility to understand, assess and manage all probable risks.
- 2.3 The Trustee has an integrated approach to environmental, social and governance (ESG) issues and these matters are important considerations in the context of making investment decisions (Statement of Investment Belief 3.5). The Trustee believes that by taking such matters into consideration:
 - a. it is likely to result in superior long-term risk-adjusted returns for members by helping to protect and manage against risk of loss; and
 - b. the Trustee has a fiduciary duty to behave in a responsible fashion and consider all investment risks, including financial as well as non-financial risks such as ESG factors.
- 2.4 All investment risks, both financial and non-financial, should also be considered through a long-term lens to mitigate the problems of short termism. In this regard, the Trustee is cognisant that it operates in a competitive market for both investment ideas and retaining and growing its membership. Peer practice and performance is both informative and a risk consideration yet will not be the primary driver of investment strategies and decisions (Statement of Investment Belief 1.5). As such, investment decisions should be focused on the achievement of the Fund's longer-term goals and objectives. This long-term approach reduces the focus on short term market fluctuations. Acting on short term fluctuations can have negative implications, or even impede the achievement of the Fund's investment mission to grow member savings by delivering long-term investment returns above the rate of inflation to enable members to improve their financial security in retirement. This Policy sets out the Trustee's approach to managing ESG matters across its various investments and investing activities.

3. Responsibility

- 3.1 The Trustee's Investment Committee has responsibility and oversight with regard to the Fund's ESG policies and practices and in ensuring that ESG considerations are taken into account when making investment decisions.
- 3.2 The primary responsibility for coordinating the day-to-day ESG activities across the Fund is assigned to the ESG Officer.

4. What does ESG mean?

4.1 ESG is an acronym for environmental, social and corporate governance issues which form three central factors in measuring the sustainability and ethical impact of an investment. ESG considerations consist of a set of non-traditional risks which are becoming more mainstream. These considerations are typically longer-term risks which can affect the sustainability of an investee company's business model. The Trustee believes these risks are material and as such should be considered as part of the investment process. These issues cover a number of concepts, including an entity's social licence to operate. By aligning with the values of a society, sustainability and longevity can be improved.

4.2 Relevant ESG considerations include, but are not limited to:

Environmental	Social	Governance
<ul style="list-style-type: none">• climate change and potential impacts• pollution and waste management• energy use• natural resource conservation, including water• impact on local and global environment	<ul style="list-style-type: none">• managing the relationship with the community and the "licence to operate"• workforce diversity• employee welfare (including modern slavery practices) and managing workforce relations/conditions• workforce safety controls• adherence to international conventions	<ul style="list-style-type: none">• appropriate management structure• appropriate executive remuneration• managing conflicts of interest• transparency of operations and management structure• risk management• legal/regulatory compliance

5. ESG Investment Principles

5.1 The Trustee has established a set of investment principles (ESG Investment Principles) that provide guidance for the development and implementation of the ESG policy framework; which are detailed below. These guidelines address the way the Trustee integrates and implements the ESG risks and opportunities into the investment process.

5.2 The Trustee has an integrated approach to the mitigation of ESG risks. This involves the systematic and implicit inclusion of ESG factors into traditional financial analysis practices. Such a process does not seek to exclude, or screen, investments based on exceeding or meeting specified levels of adherence to ESG factors. This, however, does not exclude the use in the future of exclusions or themes.

5.3 The Trustee's ESG Investment Principles are designed to guide policy direction as well as the procedures to implement the Fund's ESG activities.

5.4 The Trustee's ESG Investment Principles are set out below:

- 1) **Investment** – Ensure ESG risks are captured in the investment valuation thesis and priced accordingly;
- 2) **Stewardship** – Protect and enhance the value of the assets under our stewardship through promoting and influencing positive long-term behaviours through active engagement with investee governance structures;
- 3) **Values and Collaboration** – Support and promote the values of the UN Principles for Responsible Investment (UNPRI) and those of the Trustee;
- 4) **Reporting and Disclosure** – Provide substantive and appropriate reporting and disclosures to members, industry bodies and government with regards the Fund's ESG risks; and

- 5) **A long-term focus** – Consider investment, and non-financial risks and processes, through a long-term lens to mitigate the problems of short-termism.

5.6 These guiding principles form the basis of the Fund's ESG procedures and activities and are complementary to, and align with, the UNPRI's six principles for responsible investment. The Fund and UNPRI principles are set out in Appendix 1.

6 Implementation

6.1 The Trustee believes that a practical approach to balancing ESG issues is the most effective way to implement its ESG policy. This can be achieved through:

- a. assessing and monitoring the alignment of ESG policies and practices of current and proposed investment managers with the Trustee's Statement of Investment Beliefs;
- b. evaluation of the ESG characteristics and risks of current and proposed direct investments;
- c. collaboration with industry and peers, including membership of relevant forums and groups (eg. ACSI and UNPRI);
- d. actively exercising ownership rights;
- e. engagement with investee companies; and
- f. investment supervision.

7. Stewardship and active ownership

7.1 Stewardship refers to the responsibility of asset owners to exercise their ownership rights to protect and enhance long-term investment value by promoting sustainable value creation. The Trustee believes that appropriately discharging these obligations as an asset owner is an important part of the responsible investment process and an obligation in carrying out its fiduciary responsibilities to members.

7.2 As providers of capital, asset owners – including superannuation funds, can play an important role in influencing the behaviour of investment managers and investee companies, whether it is in the way companies manage risk, the way companies and investment manager's remunerate their employees or how investment managers vote on key resolutions. Stewardship activities play an important role in influencing investment manager and company behaviour, which can help foster sustainable, long-term growth. These activities also help align the Fund's Investment Beliefs, policies and guidelines with those entities tasked with the underlying investment management of members savings as well as the individual investee companies the Fund directly invests in. This ensures investing is seen through a long-term lens instead of the day-to-day volatility experienced in most investment markets.

7.3 This Policy is a critical document in support of the Fund's stewardship efforts.

7.4 Stewardship activities include proxy voting, engagement, policy advocacy and consideration of such issues in the appointment and monitoring of external asset managers, as well as the oversight and monitoring of the management and governance structures of those assets directly held by the Fund.

8. Monitoring investment managers

8.1 The management of investments within the Fund's listed assets portfolio is outsourced to external managers. Review of the ESG policies and practices of candidate investment managers is part of the evaluation process when considering their appointment and subsequent performance. However, it is noted that the approach to ESG can vary across managers and asset classes.

8.2 For managers currently utilised within the listed asset portfolio, an ongoing monitoring process is conducted to ensure adherence to the manager's stated ESG policies and procedures. The Fund also engages with managers with the aim of improving their ESG risk mitigation processes and characteristics and to provide a forum for further dialogue and engagement on developing ESG issues of importance to the Trustee.

9. Direct investments

- 9.1 Assessing the ESG risks of direct investments is an important component of the due diligence process when considering proposals for inclusion of new investment assets in the Fund's portfolio. These considerations are further set out in the Investment Due Diligence Policy (IGF07).
- 9.2 In line with the Fund's monitoring process, an on-going monitoring process is conducted to ensure adherence to ESG policies and procedures.

10. Proxy voting

- 10.1 Proxy voting is an important element of asset ownership and stewardship. As such, the Trustee is active in the proxy voting process and strives to vote on all resolutions where entitled to do so.
- 10.2 The Trustee reports the Fund's voting record for listed entities in public markets to members on a semi-annual basis via its website.
- 10.3 Presently, all of the Fund's international listed shareholdings are invested through pooled investment vehicles. Under such vehicles individual unitholders are unable to directly exercise a voting right over their respective interests. Instead, the external investment manager (generally in its capacity as Trustee or Responsible Entity) votes on behalf of the unitholders.
- 10.4 The Trustee requests, and receives copies of, the proxy voting policies of the respective investment managers from time to time. These policies are reviewed and considered in light of this Policy. Where relevant, the Trustee liaises with the respective managers on matters of interest or where the manager's policy does not meet the Fund's expectations.

11. Engagement with investee companies

Listed Entities

- 11.1 The Trustee sees engagement as an important component of stewardship. Through engaging with investee companies on ESG matters, the Trustee has the ability to improve behaviours, management incentives and governance structures to support long-term value enhancement. The Trustee recognises that engaging with investee companies on ESG issues is an important aspect of discharging its fiduciary responsibility.
- 11.2 The Australian Council of Superannuation Investors (ACSI) is a collective group of asset owners of which the Fund is a Smaller Full member. ACSI undertakes a program of direct engagement with listed companies on matters of corporate governance, disclosure and accountability. This engagement is aimed at ensuring listed companies are aware of shareholder concerns, with a view to improving practice where deficiencies are identified. ACSI provides a collective and collaborative forum through which the Fund is able to leverage collective scale to engage meaningfully with ASX listed companies to manage and mitigate ESG risks. Currently ACSI is limited to engagement programs in the domestic Australian listed market.
- 11.3 The Trustee supports this program of engagement and does not generally engage directly with listed companies on these matters.

Unlisted Entities

- 11.4 The Trustee does however engage directly with management and boards of unlisted investee companies through:
- a. direct engagement with senior management of the entity;
 - b. collective shareholder discussions; and
 - c. discussions with the Trustee's nominee Director where that exists.
- 11.5 The Trustee also seeks the right (including jointly with closely aligned co-investors) to appoint a nominee to the Board of each investee company or to the advisory board in the case of managed funds.

12. Investment supervision

The Trustee's policy is to supervise its directly held investments closely and consequently it seeks, wherever possible, the right to appoint nominees to positions of investment supervision, whether this is as a director or as a member of a supervisory/advisory committee. The Trustee engages proactively with its nominated directors and committee members.

13. Assessment and oversight of nominee appointments

13.1 As part of its oversight duties, the Trustee reviews each of the nominees appointed to investee companies. This process includes an annual review whereby the nominee is evaluated against the below criteria:

- i. the Nominee's performance in actively carrying out their primary duty to the investee company, and in representing the Trustee and acting in the best interests of members;
- ii. acting in an ethical and professional manner;
- iii. the promotion of industry best practice in both a governance and operational capacity. This includes ensuring appropriate monitoring, reporting and controls remain in place;
- iv. an annual confirmation regarding any conflicts of interest; actual, potential or perceived. Consistent with prudential standard SPS521 Conflicts Management, the Nominee Directors are requested to disclose any interests or duties that do, or have the potential to affect their performance in respect of their obligations to the Fund's business operations; and
- v. any disclosures are assessed through, and in accordance with, the Trustee's existing Conflicts Management Framework, and disclosed on the Trustee's registers if applicable.

13.2 The annual review is conducted by Management. In making an assessment against the above criteria, Management may seek responses from the Nominee Director directly, and may seek insights from the Investee Company, from the Principal Asset Consultant, and potentially other sources such as other shareholders. The result of the review is provided to the Trustee for consideration at the conclusion of the review. The review may or may not include proposed actions where deficiencies are identified. It should be noted that Nominee Director appointments and removals are delegated to Management in accordance with the Delegations Framework.

13.3 Further information is contained within the Trustee's Nominee Director Appointment Policy (IGF11).

14. Exclusion of investments

14.1 From time to time the Trustee may consider excluding certain companies, sectors or asset classes from the Fund's portfolio where the risk return characteristics of those investments are deemed inappropriate from an ESG perspective. However, it is not the intention of the Trustee to consider a list of exclusions across the Fund as an integrated approach to ESG risks has been adopted. From time to time in exceptional circumstances, exclusions may be applied where the Trustee concludes that ESG issues are likely to materially jeopardise the long-term sustainability of an investment in that area.

14.2 At this time, the Trustee has resolved to seek to exclude tobacco manufacturing companies from its investment portfolio wherever possible. This is currently the only exclusion in force across the Fund.

15. Collaboration with industry and peers

15.1 The Trustee recognises that collaborating with and investing alongside like-minded investors can be an effective way of adding value (Statement of Investment Beliefs 1.4). Such activities can include the sharing of ideas and contemporary best practice as well as emerging areas of focus. Accordingly, the Trustee is a Smaller Full Member of the ACSI. The Trustee is also a signatory of the UNPRI. As such, the Trustee has signed on to UNPRI's six aspirational principles to help incorporate ESG issues into investment processes.

15.2 The six principles are:

- a. incorporate ESG issues into investment analysis and decision-making processes;
- b. to be active owners and incorporate ESG issues into ownership policies and practices;
- c. to seek appropriate disclosure on ESG issues of investee entities;
- d. to promote acceptance and implementation of the principles within the investment industry;
- e. to work together to enhance effectiveness in implementing the principles; and
- f. to report on activities and progress towards implementing the principles.

16. Climate change

16.1 Consensus scientific opinion supports the view that the global climate is warming. The Intergovernmental Panel on Climate Change's (IPCC's) fifth assessment report stated:

"Human influence on the climate system is clear, and recent anthropogenic emissions of greenhouse gases are the highest in history".

The Trustee agrees with this view and in line with its fiduciary duty to members, considers material portfolio risks and opportunities from an investment standpoint, of which climate change is one.

16.2 In support of the above views, the Paris Climate Agreement was ratified in December 2015. The Paris Agreement for the first time brought most nations into a common cause to undertake ambitious efforts to combat climate change and adapt to its effects, with enhanced support to assist developing countries to do so. The US has however since pulled out of the agreement. The Paris Agreement's central aim is to strengthen the global response to the threat of climate change by keeping a global temperature rise this century to well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. Additionally, the Paris Agreement aims to strengthen the ability of countries to deal with the impacts of climate change.

16.3 Specific climate change related risk that the Trustee looks to incorporate includes:

- a. the physical impact of climate change on investments from weather change, including acute weather events and changing weather patterns;
- b. changes to the regulatory environment as a result of climate change, including the pricing of carbon to limit the effects of climate change; and
- c. substitutional and technological change as a result of regulatory and physical changes to weather and the climate.

16.4 The Trustee is committed to embedding climate change in risk management frameworks that support the investment process. This includes a commitment to the Task Force on Climate-related Financial Disclosures (TCFD) aligned disclosure framework. The Fund is also investigating ways to examine climate risk at the holistic portfolio level. This will provide a further lens to mitigate climate risks in conjunction with the idiosyncratic climate risks evident in each investment.

16.7 In supporting the abatement of climate related risks, the Trustee will also from time to time engage with and participate in projects affiliated with investor groups and climate change abatement organisations. The Trustee may also look to join these groups should it be viewed that membership will provide support in discharging the Trustee's fiduciary obligations in mitigating the above risks.

17. Modern Slavery

17.1 The Commonwealth *Modern Slavery Act 2018 (the Act)* establishes a national Modern Slavery Reporting Requirement for certain large businesses and other entities in Australia. The reporting regime is intended to support the Australian business community to identify and address their modern slavery risks and maintain responsible and transparent supply chains. Consistent with and supporting this reporting

requirement, the Trustee has developed a Modern Slavery program which seeks to assess and address modern slavery risks in the Trustee's operations and supply chains.-

17.2 In assessing and addressing modern slavery risks under the Trustee's modern slavery program, the Trustee is also fulfilling its obligations under this Policy as an active steward of its investment portfolio. The Trustee believes that by enhancing the understanding and increasing the transparency of an entity's operations and supply chains, business efficiencies can be enhanced and sustainability improved.

18. Review of this Policy

This Policy will be reviewed by the Trustee in accordance with the Policy Review Schedule, though at least annually. The Trustee may also review this Policy at any time for any reason, including where it becomes aware that this Policy:

- a. is out of date;
- b. is no longer relevant to the circumstances of the Trustee; or
- c. has failed or may fail to support the investment strategy of the Trustee.

Appendix 1. Comparison of UNPRI and MTAA Super ESG Principles

Description		Proposed Trustee ESG Principle	Description
UNPRI Principle 1	Incorporate ESG Issues into analysis and decision making process.	Investment (1)	Ensure all ESG risks are captured in the investment valuation thesis and priced accordingly
UNPRI Principle 2	Be active owners and incorporate ESG into ownership policies and practices.	Stewardship (2)	To protect and enhance the value of the assets under our stewardship through promoting and influencing positive long term behaviours through active engagement with investee governance structures.
UNPRI Principle 3	Seek appropriate disclosure on ESG by investee entities.	Reporting and disclosure (4)	To provide substantive and appropriate reporting and disclosures to members and industry bodies with regards to the Fund's ESG risks.
UNPRI Principle 4	Promote acceptance and implementation of the principles within the investment industry.	Values and Collaboration (3)	To support and promote the values of the UNPRI and those of the Trustee
UNPRI Principle 5	Work together to enhance effectiveness in implementing the principles.	Values and Collaboration (3)	To support and promote the values of the UNPRI and those of the Trustee
UNPRI Principle 6	Report on activities and progress towards implementing principles.	Reporting and disclosure (4)	To provide substantive and appropriate reporting and disclosures to members and industry bodies with regards to the Fund's ESG risks
		A long-term focus (5)	Consider all investment & non-financial risks and processes through a long-term lens to mitigate the problems of short termism

Revision History

Version	Reason for amendment	Date approved by Board
1	Initial Policy Created under the name Investment Governance Policy	16 October 2012
2	Policy updated and name changed to ESG Policy	23 February 2016
3	Policy updated to incorporate changes arising from triennial independent review and other changes.	25 August 2016
4	Policy updated to incorporate approved ESG Philosophy and Principles, and various other enhancements	24 May 2018
5	Updated as part of the implementation of revised Investment Beliefs and Review of the Investment Governance Framework	29 August 2019
6	Updated to incorporate the Fund's Modern Slavery activities	29 July 2020