

Sustainable Investing Bulletin

Half-year ended 31 December 2022

Welcome to TelstraSuper's Sustainable Investing Bulletin, summarising our sustainable investing activities for the half-year ended 31 December 2022. Our approach to sustainable investment follows the guidelines of the UN Principles for Responsible Investing (PRI), which include:



Incorporating analysis of Environmental, Social and Governance (ESG) factors in investment decision-making



Active ownership and stewardship practices



Encouraging good ESG disclosure by investee companies



Advocacy and collaboration



Reporting on our activities



Spotlight: 40:40 Vision

Our overall sustainable investment approach is depicted in the diagram below:





Incorporating analysis of ESG factors in investment decision-making

PRI 2021 Assessment

TelstraSuper has been a signatory of the Principles for Responsible Investing (PRI) since 2007. As the world's leading proponent of responsible investing, the United Nations-supported PRI encourages its signatories to incorporate ESG factors in their investments and ownership decisions.

Signatories report to the PRI on their responsible investment practices and receive a scored assessment based on PRI guidelines and relative peer practice. The assessment process is an important benchmark for measuring our responsible investment approach and progress.

In results released in September 2022, TelstraSuper achieved a favourable overall assessment for the 2021 reporting period, with strong ratings relative to the median score across the majority of practice modules applicable. While the PRI scoring framework for 2021 was new and not directly comparable to previous assessments, our result was consistent with previous years.

Key achievements were:

1. A five-star rating (>90% score) for external investment manager selection, appointment and monitoring practices for the infrastructure, property and listed equity asset classes. Our scores in this category for our fixed income (90%) and private equity (84%) asset classes were also strong;
2. A five-star rating for incorporation of responsible investment practices for internally managed Australian equities. Our score of 92% reflects the investment in TelstraSuper's resources and capability development over the past few years;
3. A four-star rating (81%) for our sustainable investment and stewardship policies which include our Climate Change plan; and
4. A four-star rating (74%) for our listed equity voting policies and practices.

We continue to develop our responsible investment capabilities to continually improve our practices across our investment teams.

Click to view our [2021 Assessment Report](#) and [2021 Public Transparency Report](#).

Sustainability reporting integrated into our annual report

TelstraSuper has integrated sustainable investment reporting in the [2022 annual report](#). The following areas were highlighted:

- Our sustainable investment strategy;
- The key initiatives delivered during the 2021/22 financial year;
- TelstraSuper's achievement of being rated an ESG Leader for 2022 by Rainmaker;
- TelstraSuper's portfolio contribution to the United Nations Sustainable Development Goals; and
- TelstraSuper's approach to climate change for the investment portfolio and our investments in climate-related activities.

Third Modern Slavery Statement published

In November 2022, TelstraSuper published its third [Modern Slavery Act Statement](#).

The Statement outlines our approach to mitigating modern slavery risk, including:

- How we assess our external investment managers to ensure they are managing modern slavery risks in the companies they invest in on our behalf.
- A summary of our engagement on modern slavery with Australian investee companies across various high-risk industries to understand how these companies identify and manage the risk of modern slavery in their own operations and supply chains; and
- Our collaboration with organisations, including the Australian Council of Superannuation Investors (ACSI) and Monash University, on research into modern slavery reporting.

Updated proxy voting policy

TelstraSuper's [Proxy Voting Policy](#) was updated in September 2022.

Key changes were:

1. As proposed in our Climate Change Action Plan, the inclusion of a voting guideline with criteria to help us assess the climate change strategies of the companies we invest in. See page 5 of this Bulletin for further details on these criteria; and
2. Updating the voting guideline for director elections to articulate TelstraSuper's expectations on gender balance of company boards and executive management teams of the Australian listed companies we invest in.
TelstraSuper expects ASX300 companies to set medium and long-term targets for gender balance on their board and executive leadership teams, with a goal to achieve gender balance (40% women, 40% men, 20% unallocated) by no later than 2030. Where companies have poor gender balance and no plan for improvement, TelstraSuper will consider voting against individual directors most accountable for board succession and composition. See also the spotlight piece in this Bulletin on how we became an Investor Signatory to the 40:40 Vision.

RIAA

As part of our commitment to responsible investment, TelstraSuper has joined the [Responsible Investment Association of Australasia](#) (RIAA), Australia's largest network of responsible investors.

Representing around US\$29 trillion in assets under management, RIAA works to align capital with achieving a sustainable society, environment and economy.

Joining RIAA will provide TelstraSuper with further opportunities to enhance our approach to responsible investing through collaborative action. This includes participating in working groups that aim to shape and promote best practice protocols in responsible investing.



New external investment manager appointments

During the half year, five external investment managers' approaches to ESG integration were reviewed as part of TelstraSuper's due diligence relating to new or follow-on investments. Three of the five external investment managers were ultimately appointed – one in fixed income and two in the alternatives asset class. Our assessment confirmed these external investment managers satisfactorily integrated ESG analysis into their investment processes.

External investment manager review

TelstraSuper regularly reviews its external investment managers to assess how they integrate ESG activities into their processes. This includes evaluating how investment managers approach corporate governance, climate change risk, workers' rights and modern slavery.

Following a review of eight of our external investment managers across the international equities, alternatives, private equity and infrastructure asset classes, seven were assessed as having strong ESG capabilities. The eighth external investment manager, evaluated as having a weaker-than-expected approach, has been subsequently terminated.

Other ESG activities

TelstraSuper's listed equities and corporate debt holdings are reviewed regularly to ensure continued compliance with our mandated exclusions of enterprises involved in tobacco manufacture, controversial weapons manufacture, and prime-focus thermal coal extraction.

In response to Russia's invasion of Ukraine, our external investment managers were instructed to divest from Russian-domiciled securities and sovereign debt instruments in an orderly manner when markets allow and exclude additional investments until further notice.

We consider and respond to NGO and member queries relating to various ESG matters as they arise.



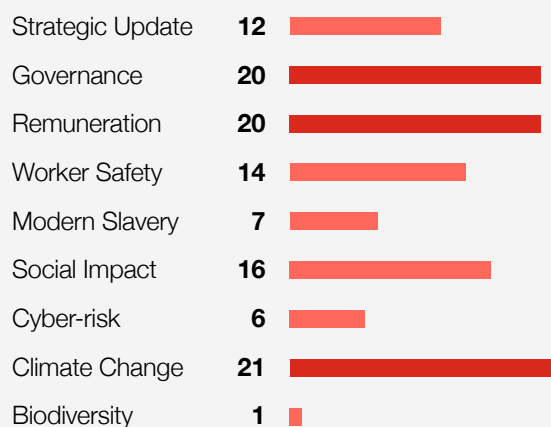
Active ownership and stewardship practices

Direct engagement

TelstraSuper takes an active ownership position with the Australian listed companies we invest in, which involves regular engagement and voting on decisions at company meetings. We also seek to engage with other groups representing the interests of key stakeholders of the companies we invest in, including workers and communities.

Over the last six months, we engaged with 32 listed companies and participated in 42 meetings on various sustainable investment matters. The charts below summarise these meetings.

Matters discussed with companies:



Company / Stakeholder Engaged	ESG meetings
Arcor Plc	1
Aristocrat Leisure Ltd	1
Australia and New Zealand Banking Group Ltd	1
Bapcor Ltd	1
BHP Group Ltd	2
Bluescope Steel Ltd	1
Brambles Ltd	2
Charter Hall Group	1
Coles Group Ltd	1
Commonwealth Bank of Australia Ltd	2
Endeavour Group Ltd	1
Fortescue Metals Group Ltd	1
Insurance Australia Group Ltd	1
James Hardie Industries Plc	1
JB Hi-Fi Ltd	1
Medibank Private Ltd	1
National Australia Bank Ltd	1
Newcrest Mining Ltd	1
Nib Holdings Ltd	1
Northern Star Resources Ltd	1
Origin Energy Ltd	1
Qantas Ltd	1
Qube Holdings Ltd	1
Rio Tinto Ltd	3
Santos Ltd	1
South32 Ltd	3
Telstra Corporation Ltd	1
Transurban Group Ltd	1
Wesfarmers Ltd	1
Westpac Banking Corporation Ltd	3
Woodside Energy Group Ltd	2
Woolworths Group Ltd	1
Total	42

Key ESG matters in focus



Environment

“Say on Climate” Resolutions

Over the past year, some of Australia’s largest companies have elected to include “Say on Climate” resolutions at their annual general meetings for shareholders to consider. We support companies with material climate risks adopting this approach, as it provides an opportunity for investors like TelstraSuper to express a view on a company’s plans and strategies for decarbonisation.

As outlined earlier in this Bulletin, TelstraSuper has updated its Proxy Voting Policy to include a voting guideline for climate change strategy resolutions. Therefore, when voting on a “Say on Climate” resolution, we will generally consider the following:

1. Alignment of corporate strategy with the company’s climate plan;
2. Disclosures made in accordance with the Taskforce for Climate-Related Financial Disclosures (TCFD) reporting framework developed by the Financial Stability Board;
3. Scenario analysis undertaken by the company;
4. Whether any carbon emission reduction targets are aligned with the Paris Agreement;
5. Physical risk management activities;
6. The company’s policy and advocacy activity and its membership of industry organisations;
7. Equitable transition planning and implementation; and
8. Alignment of remuneration with achievement of the strategy and goals.

TelstraSuper will also consider the advice of our proxy advisor and other climate change experts who may be engaged by us when determining our vote on climate change matters.

Case Study: South32

Investor group, ClimateAction 100+ has identified South32, a diversified global mining and metals company that TelstraSuper invests in, as one of 16 Australian companies to engage with on its climate transition planning.

TelstraSuper is a signatory of Climate Action 100+ and a supporting member of the South32 investor working group.

Over the past six months, TelstraSuper has engaged with South32 on three occasions, directly and in collaboration with ACSI and ClimateAction 100+, to discuss the company’s climate change action plan, which sets out South32’s goals, approach and progress with respect to climate transition.

South32 has announced its goal to achieve a 50% reduction in Scope 1 and Scope 2 greenhouse gas emissions by 2035. To achieve this medium-term target, the company is investing in efficiency projects, shifting to low-carbon energy sources, applying low-carbon design principles and evaluating new technologies. South32 obtained independent “reasonable assurance” on the greenhouse gas emissions data reported in its 2022 sustainability report and, since 2017, has reported annually under the TCFD framework.

TelstraSuper provided feedback to the South32 board on the potential to enhance the plan by identifying technologies to invest in to assist with advancing operational emissions abatement prior to 2030, relative to the 2035 medium-term target that has been set.

Also, whilst acknowledging that the guiding principles adopted by South32 for transition planning are aligned with the objectives of the Paris Agreement, TelstraSuper recommended that South32 provide more information with respect to the just transition planning it has undertaken for the communities surrounding its Worsley alumina and Hillside aluminium operations.

South32 provided shareholders with the opportunity to vote on its Climate Change Action Plan at its annual general meeting held in October 2022. TelstraSuper voted in favour of the plan, which was also supported by the majority of shareholders, with the resolution being carried with 89.6% approval.



Social Impact

Cyber-risk

With an increasing number of cyber risk incidents over the last six months, we have engaged with six investee companies where we considered the potential for material adverse customer and shareholder outcomes to understand how they have assessed and mitigated cyber risk. We also undertake due diligence reviews on our external investment managers' and custodian's cyber risk capabilities on appointment and periodically during the term of their engagement.

ACSI Just Transition Working Group

TelstraSuper is a member of ACSI's Just Transition Working Group. The objectives of the working group are to:

1. Improve investor understanding of just/equitable transition planning and what is best practice in this regard;
2. Improve the transparency, disclosure and actions of ASX-listed companies and deepen engagement; and
3. Develop consistent, equitable transition principles and common reporting standards.

In December 2022, ACSI published a research paper titled [A just transition to a clean energy economy](#), outlining:

1. Company reporting and disclosure expectations, including examples of corporate disclosures that are considered better practice;
2. Policy enablers and public policy recommendations, including examples of joint working groups established in jurisdictions affected by transitions away from fossil fuels such as thermal coal; and
3. A synopsis of just transition frameworks developed by key stakeholder organisations that can guide investors and businesses involved in the transition.

The working group has engaged with organisations undertaking significant transitions and key stakeholder representative groups as part of the research. This collaborative stakeholder engagement will continue as part of our sustainable investment agenda.

Modern slavery and human rights

Over the past six months, TelstraSuper undertook collaborative engagement with several companies to understand how they identify, manage and report the risk of modern slavery in their own operations and supply chains. These companies included BHP Group, Wesfarmers, JBHi-Fi, Endeavour, Bapcor and Fortescue Metals Group.



Governance

Remuneration policies and practices

TelstraSuper regularly reviews the remuneration policies and practices of the Australian listed companies we invest in, incorporating proxy research and other specialist advice where available. During the half year to 31 December 2022, we engaged with twenty companies to discuss various remuneration-related matters. Areas of interest were: the nature of performance hurdles associated with short and long-term incentives; retention payments; the use of director discretion to award incentives where performance hurdles have not been met; any misalignment of remuneration policies and practices when compared against shareholder outcomes; and the recognition of worker safety as a priority when considering variable compensation.

During the half year, TelstraSuper voted against the remuneration reports and/or the award of incentives to executives at several company annual general meetings. These companies included Commonwealth Bank of Australia, Goodman Group, Qantas, Steadfast and Worley.

ACSI membership

In addition to our own direct engagement with listed companies, ACSI, of which TelstraSuper is a full member, conducts extensive engagement and research activities on behalf of members. ACSI meets with many ASX300 listed companies and produces proxy voting advice for AGMs to which TelstraSuper subscribes.

TelstraSuper attended 36 meetings hosted by ACSI during the half-year and, where appropriate, provided direct feedback to companies engaged.

In the past six months, ACSI has published research on [ESG Reporting Trends in the ASX 200](#), [CEO pay in ASX200 companies](#), [Climate Change disclosure in the ASX200](#), [Climate trajectory of the ASX200](#), and [A just transition to a clean energy economy](#). For more detail about ACSI, please refer [here](#).

Other activities

Other recurring engagement topics with investee companies include diversity and inclusion, worker safety, board capability and governance, waste and recycling, and offshoring/outourcing.



Encouraging good ESG disclosure by investee companies

Where appropriate, TelstraSuper provides feedback to the companies we invest in on their ESG disclosures in various investor and/or public-facing reporting documents. Over the past year, we have engaged with the major Australian banks on their climate risk exposure, actions and disclosures. All of these major banks have indicated their commitment to further developing and refining their public reporting around climate risks.

Proxy voting

As an active owner, TelstraSuper seeks to exercise all proxy votes for listed Australian and international shareholdings.

TelstraSuper maintains a Proxy Voting Dashboard that provides a high-level summary of voting activity and detailed information on how we voted on every resolution at company meetings.



Click here to access
the TelstraSuper Proxy
Voting Dashboard

Advocacy and collaboration



TelstraSuper recognises that collaboration with other peer investors, stakeholders and/or industry associations, bodies and groups can greatly assist in achieving desired outcomes for investors with respect to a range of important issues.

For this purpose, we maintain several strategic partnerships and regularly work with the wider industry to create effective networks and build our influence.

TelstraSuper is an active member of the following organisations:



Joined Member Council
June 2020



Member of the Physical Risk
and Resilience Working Group



Advocacy and collaboration cont.

Over the past six months, TelstraSuper's sustainable investment team has participated in several events that promote sustainable investing. These included:

- PRI in-person 2022 conference;
- Goldman Sachs Carbonomics conference;
- Pension Bridge Climate Change Mitigation Panel (presented) discussing investor's role in mitigating climate change;
- IGCC 2022 summit;
- IGCC working group meetings;
- Climate Action 100+ Working Group;
- TNFD workshops;
- Macquarie biodiversity summit;
- ACSI annual conference; and
- 40:40 Vision working group meetings.

The team also attended briefings with various subject matter experts that covered various sustainable investing issues. Such topics have included:

- Climate and carbon risk;
- Biodiversity;
- Investing in line with the UN Sustainable Development Goals;
- Climate-related financial reporting;
- Indigenous cultural engagement;
- Sustainable finance;
- Impact investing; and
- Renewable energy investing.

TelstraSuper holds informal dialogue with our peer funds and investors on a broad range of matters which assists us in keeping up to date with current sustainable investing issues and initiatives across a broader spectrum of industry stakeholders.

Reporting on our activities



In addition to this Bulletin, TelstraSuper members can read about our stewardship activities on our dedicated Sustainable Investment page on the TelstraSuper website.

We also produce videos and news articles for members on activities on an ad-hoc basis and share information through our quarterly member newsletter. Our member contact centre regularly responds to member queries relating to climate change and other related matters.

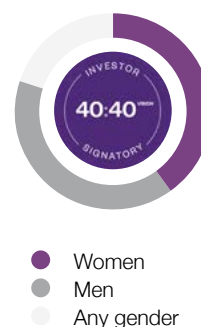


**Click here to access
the Sustainable
Investment page**

Spotlight: 40:40 Vision

In October 2022, TelstraSuper became an Investor Signatory to the 40:40 Vision, an investor-led initiative aimed at achieving gender balance in executive leadership across Australia's largest listed companies.

40:40 Vision seeks to achieve gender balance – 40% women, 40% men and 20% any gender – across the senior leadership of all ASX300 companies by 2030.




As an Investor Signatory to the 40:40 Vision, in collaboration with other participants TelstraSuper aims to:

- Actively engage with ASX listed companies in which TelstraSuper is invested on the gender diversity of their executive team to convey the high level of importance that we and our members place on this issue;
- Encourage investee companies to sign on to 40:40 Vision to demonstrate their long-term commitment to achieving gender balance;
- Raise questions where there is evidence that companies are lagging their targets or their commitments under the 40:40 Vision; and
- Consider voting against the re-election of board members, if we believe companies are failing to demonstrate that they are aligned with our belief that gender diversity helps deliver long-term shareholder value.

Companies that sign on to the 40:40 Vision commit to the following:

- 1 Pledge to achieve gender balance (40:40:20) in executive leadership by 2030;
- 2 Declare medium and long-term gender targets;
- 3 Make their plan public to employees, shareholders, investors and the business community; and
- 4 Report annually on how they are tracking against targets.

To date 19 of Australia's largest companies have become signatories to the 40:40 Vision. These include ANZ Banking Group, Bega Cheese, Bendigo and Adelaide Bank, BHP Group, Bluescope Steel, Domain Holdings, Dominos Pizza, Endeavour Group, Jumbo Interactive and Mirvac Group.

 [Click here for further information on the 40:40 Vision](#)



Call us
1300 033 166



Email the TelstraSuper Sustainable Investing Team
susinv@telstrasuper.com.au



Visit the website
telstrasuper.com.au



TelstraSuper
PO Box 14309
Melbourne VIC 8001