

Sustainable Investing Bulletin

Half-year ended 30 June 2022

Welcome to TelstraSuper's Sustainable Investing Bulletin, summarising our sustainable investing activities for the half-year ended 30 June 2022. Our approach to sustainable investment follows the guidelines of the UN Principles for Responsible Investing (PRI), which include:



Environmental, Social and Governance (ESG) investment analysis and decision-making



Active ownership policies and practices



ESG disclosure by investee companies



Advocacy and collaboration



Reporting on our activities



Spotlight: Investor Agenda Climate Action Plans

Our overall Sustainable Investment approach is depicted in the diagram below:





Considering ESG in investment analysis and decision-making

First Climate Change Report published

TelstraSuper published its inaugural [Climate Change Report](#) in April 2022. The report documents TelstraSuper's climate change strategy for the investment portfolio, details implementation activities and outlines our plans for 2022 and beyond.

The report is aligned with the Taskforce for Climate Related Disclosure (TCFD) reporting framework developed by the Financial Stability Board and APRA's prudential guidance on reporting on Climate Change risk management.

Key highlights of the report are:

1. Communicating our approach to Climate Change risk management for the investment portfolio, progress to date and next steps.
2. Articulation of TelstraSuper's governance structure concerning Climate Change risk for the investment portfolio.
3. Identification of the investment risks and opportunities from Climate Change for TelstraSuper over the short, medium, and long term with examples of portfolio construction actions taken to date.
4. Publication of the Scenario Analysis results highlights the potential change in expected investment returns for the Growth, Balanced and Conservative options without active portfolio allocation decisions being made in response to the risks identified for each scenario.
5. Showcasing risk management initiatives across the Listed Equities, Real Assets, and Alternatives asset classes.
6. The publication of the emissions profile of all listed assets at 1 October 2021 highlighted a 15% decrease on the previous year's baseline. This was a result of manager selection decisions that resulted in a reallocation of assets to managers with lower carbon emissions characteristics, particularly in International Equities.

Rainmaker ESG Leader Rating

TelstraSuper is pleased to have been rated an ESG Leader for 2022 by Rainmaker.

The [ESG Leader Rating](#) is earned by Australian superannuation funds that are implementing environmental, social and governance (ESG) principles to a high level while having a track record of strong investment performance.

The factors that Rainmaker assess for funds are:

1. Governance: The fund publicly declares its commitments to ESG principles.
2. Investment transparency: The fund discloses what it invests in and how it engages with the companies it invests in.
3. Publishes ESG reports: The fund reviews and discloses its environmental, climate change and social impacts.
4. Investment processes: The fund discloses the investment practices through which it implements ESG principles regarding how it invests.
5. Performance: The fund achieves its investment objectives and competitive investment returns while satisfying the Sole Purpose Test as required by the Superannuation Industry (Supervision) Act 1993.

Other facets considered in Rainmaker's 2022 ESG review were a fund's net-zero commitment, gender diversity among its management and senior executives, investment screening and the quality of portfolio holdings disclosures.



External manager appointment

Ten external managers' approaches to ESG integration were reviewed as part of the Fund's due diligence relating to new or follow-on investments during the half-year. All of these external managers were subsequently appointed.

Six new investments were approved for the Alternatives asset class. One in Infrastructure and three in fixed Income. Our assessment confirmed the external managers satisfactorily integrated ESG analysis into their investment processes.

ESG company ratings

TelstraSuper continues to build out its ratings of ASX-listed companies using our bespoke ESG rating tool. Our approach incorporates qualitative and quantitative analysis based on multiple resources such as internal research, Sustainalytics, ACSI, MSCI, S&P Global, company reports, broker research and engagement meetings.

To date, we have employed the rating tool to analyse 59 companies within the investment universe that we consider to have material inherent ESG risks and that are either owned by or under investment consideration by TelstraSuper's internal equities investment team.

The table below summarises our internal ratings.

Risk	Low	Moderate	High
Environment	25	29	5
Social	7	42	10
Governance	8	29	22
Overall ESG	7	46	6

Key matters to note are:

1. The majority of stocks rated internally to date have been assessed as having a moderate ESG risk overall.
2. Six companies have been assessed as having high overall ESG risk. TelstraSuper does not actively own two of these companies and has engaged with the four companies it does own. This is to understand better how and when the actions of the board and management will reduce the ESG risk profile of these companies from a high to a moderate level.
3. Where we have material concerns over specific ESG risks for companies in which we own or are considering acquiring shares, we, when appropriate, seek to engage with those companies' management to understand further the nature and extent of any such ESG risk.
4. Where we have material concerns that a company's board or management is not or may not be appropriately considering ESG risks, we seek to use our proxy votes to influence positive change.

Other ESG activities

The Fund's listed equities holdings are reviewed regularly to ensure continued compliance with our mandated tobacco, controversial weapons and prime-focus thermal coal exclusions.

In response to the Russian Federation's military invasion of Ukraine, TelstraSuper has determined it appropriate to alter our mandate conditions with our appointed asset managers, to require divestment and exclusion of Russian domiciled securities and Russian sovereign debt instruments. TelstraSuper has instructed its managers not to invest any further capital in Russian securities or debt instruments until further notice and divest existing positions managed on behalf of TelstraSuper in Russian domiciled securities and/or Russian sovereign debt instruments in an orderly manner when markets permit.

Substantial analysis was also performed across the Fund's International and Australian listed equities to assess the level of carbon intensity within those investment portfolios as at 30 June 2022.

We responded to ad hoc member queries and NGO activism relating to climate change issues, nuclear weapons and voting at several company meetings.

We continued to assess various third-party tools to assist in identifying and evaluating ESG risks in our investment portfolio.



Active ownership policies and practices

Direct engagement

Australian listed companies and stakeholders

TelstraSuper takes an active ownership position which means that we engage with the Australian listed companies we invest in and vote on decisions at their company meetings. We also engage with other groups representing key stakeholders' interests, including workers and communities.

During the June 2022 half year, we engaged with 20 listed companies and two key stakeholder groups on a range of issues. We had 29 meetings with directors and/or management of those companies and stakeholder representative groups specifically on ESG issues. Below is a summary of these meetings.

Matters discussed with companies:

Strategic Update	7	<div></div>
Governance	16	<div></div>
Remuneration	12	<div></div>
Worker Safety	6	<div></div>
Modern Slavery	2	<div></div>
Social Impact	8	<div></div>
Climate Change	9	<div></div>

Company / Stakeholder Engaged	ESG meetings
AGL	1
Alumina	1
ANZ	1
Aurizon	1
BHP	1
Charter Hall	1
Endeavour	1
IAG	1
Lendlease	1
Macquarie	2
Market Forces	1
NAB	1
Origin	1
QBE	1
Rio Tinto	4
Santos	1
Steadfast	1
Suncorp	1
Transurban	1
Western Workers Mining Alliance	1
Westpac	2
Woodside	2
Woolworths	1
Total	29

Key ESG matters in focus

Environment

“Say on Climate” Resolutions

Over the past nine months, 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 stance as it allows investors to express their views on a company’s plans and strategies for decarbonisation.

In late 2021, BHP became the first Australian company to include a resolution for shareholders to consider, following which other companies, including Rio Tinto, Santos and Woodside, have held votes during the past six months.

As part of a ‘Say on Climate’ resolution, we take into consideration the following aspects of a company’s climate strategy:

1. TCFD disclosures
2. Alignment of corporate strategy
3. Scenario analysis undertaken
4. Paris-aligned targets
5. Physical risk management
6. Policy advocacy
7. Equitable transition.

We also consider the advice of our proxy advisor, ACSI and other climate experts that may be available when determining our vote.

TelstraSuper supported the “Say on Climate” resolutions of BHP, Rio Tinto and Santos, consistent with overall shareholder support of 87% at BHP, 84% at Rio Tinto and 63% at Santos.

TelstraSuper has several concerns with the climate plan articulated by Woodside and voted against that proposal. Overall shareholder support for the Woodside climate plan was bifurcated, with 51% of shareholders voting for it and 49% against it.

The concerns we have with the published Woodside climate plan are:

- The medium-term emissions reduction target employed by Woodside heavily relies on carbon offsets.
- Woodside has taken a top-down approach to assess the potential for emissions removal or reduction and is yet to consider individual assets within its portfolio.

- The \$5bn commitment to investing in new energy opportunities and projects that align with the Paris Agreement is yet to identify tangible projects or investments and may be practically difficult to employ by 2030.
- The climate commitments that Woodside has developed coincide with an enterprise-changing merger with BHP petroleum and significant new investment in the Scarborough and Sangamar projects, creating material competing priorities.
- No meaningful work has been done on understanding or planning for Scope 3 emission reduction.

Climate League 2030

Climate League 2030 is a ten-year initiative coordinated by the Investor Group on Climate Change (IGCC) to support and act towards reducing Australia’s annual greenhouse gas emissions by 45% by 2030. As a signatory to Climate League 2030, TelstraSuper is committed to taking at least one new action each year to contribute to this goal.

Climate Action 100+

Climate Action 100+ is a global investor collaboration that engages directly with companies to promote the adoption of the goals of the Paris Agreement. In Australia, 16 listed companies have been identified by Climate Action 100+ as having material climate-related risks given high scope 1, 2 and 3 carbon emissions. TelstraSuper is a supporting investor of Climate Action 100+. For further information, refer to [Climate Action 100+](#).



Social Impact

ACSI Just Transition Working Group

TelstraSuper is a member of ACSI’s Just Transition Working Group, which was formed during this half-year. The objectives of the working group are:

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

The planned outputs of the group are:

1. A research paper to capture insights from stakeholder, company and industry engagement.
2. A disclosure framework and investor engagement guide.
3. Collaboration with industry bodies and policymakers to promote standards in at-risk sectors.

The group has commenced engagement with organisations undertaking significant transitions and key stakeholder representative groups.

In April 2022, TelstraSuper joined an ACSI-hosted engagement with Origin Energy to understand the transition planning underway for the closure of the company's coal-fired power station at Eraring, which was brought forward to August 2025. Origin has begun employee engagement however is yet to develop a transition plan fully. TelstraSuper will continue to engage on a collaborative basis with Origin to monitor the development of the company's transition planning to understand how its workforce and local community are being considered during this transition.

Diversity & Inclusion

TelstraSuper strongly supports efforts to improve gender diversity on boards and management teams of the companies we invest in, as we believe companies that harness collective intelligence and approach problems with different mindsets are more likely to be successful.

In collaboration with ACSI, TelstraSuper engages with companies on gender diversity regularly and expects that at least 30 per cent of the board positions in ASX 200 listed companies be occupied by women. Our proxy voting guidelines incorporate provisions for voting against individual directors most accountable for board succession and composition at ASX200 companies where no more than one female director is appointed.

Modern slavery and human rights by external managers

Over the past six months, collaborative engagement was undertaken with several companies to understand how they identify, manage and report the risk of Modern Slavery in their operations and supply chains.

These companies included Alumina and Lendlease.



Governance

Remuneration policies

From a governance perspective, the remuneration policies and practices of Australian listed companies are a key recurring area of review. TelstraSuper engaged with 12 companies during the half-year on remuneration practices. Areas of focus included the nature of performance hurdles associated with short and long-term incentives, retention payments and incentives, misalignment of remuneration with shareholder outcomes and the magnitude of proposed rewards for executives relative to the broader workforce. During the past six months, TelstraSuper did not actively vote against any remuneration report proposals at listed company AGMs in Australia or New Zealand.

ACSI membership

In addition to our direct engagement with Australian listed companies, the Australian Council of Superannuation Investors (ACSI), of which TelstraSuper is a full member, conducts extensive engagement and research activities on behalf of members. ACSI meets with most Australian listed companies and produces proxy voting advice for AGMs to which TelstraSuper subscribes. TelstraSuper attended 25 meetings hosted by ACSI during the half-year and, where appropriate, provided direct feedback to companies engaged. During the half-year, ACSI has published research on [ESG Reporting Trends in the ASX 200](#) and a [full-year engagement report](#). For more detail about ACSI, please [refer here](#).



ESG disclosure by investee companies

Where appropriate, TelstraSuper provides feedback to investee companies on ESG disclosures in their various reporting documents. Over the past twelve months, feedback has been provided to companies including BHP, James Hardie and Woodside on their sustainability reporting. These companies have indicated (confirmed to us) their commitment to further developing and refining their public reporting.

Other recurring engagement topics include diversity and inclusion, worker safety, climate change, cyber-security, board capability and governance, waste and recycling and offshoring/outsourcing.

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 concerning 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



Principles for
Responsible
Investment



AUSTRALIAN INSTITUTE of
SUPERANNUATION TRUSTEES



the voice of super



Global Investors Driving Business Transition



Advocacy and collaboration cont.

Over the past six months, the Sustainable Investment Team has participated in several events that promote sustainable investing. These included:

- IGCC 2022 Summit
- IGCC Working Group Meetings
- Climate Action 100+ Working Group
- Australian government Taskforce for Nature Related Financial Disclosures (TNFD) workshops
- CII ESG & Impact Forum.

The Sustainable Investment Team also attended briefings that covered a wide variety of Sustainable Investing issues.

Such topics have included:

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



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

Spotlight: Investor Agenda Climate Action Plans

The Investor Agenda is a global collaboration of seven major groups working with investors to develop guidance on tackling climate change. The founding partners of The Investor Agenda are:



In May 2021, the [Investor Agenda](#) released the [Investor Climate Action Plans \(ICAPs\) Expectation Ladder](#) – a framework that helps investors develop comprehensive climate action plans.

ICAPs promote investor action across [four key focus areas](#): investment, corporate engagement, policy advocacy and investor disclosure, with governance an over-arching theme. ICAPs establish four tiers of sequential accomplishment, from those beginning to think about climate change (Tier 4) to the investors who have made net-zero commitments and are well along the path to setting and implementing science-based targets (Tier 1).

To generate further momentum on ICAPs, 12 months from the release of the Expectations Ladder, The Investor Agenda showcased [10 case studies](#) from a diverse range of global investors.

TelstraSuper is pleased that our Climate Change Action Plan (CCAP) was included as a case study by the Investor Agenda.

TelstraSuper's [CCAP](#) incorporates Tier 1 and Tier 2 accomplishments across the ICAPs framework areas of Investments, Corporate Engagement, Disclosure and Governance. TelstraSuper published its inaugural [Climate Change Report](#) in April 2022 highlighting progress on the CCAP including actions taken to date across these important areas.



Click here to read the TelstraSuper case study.



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