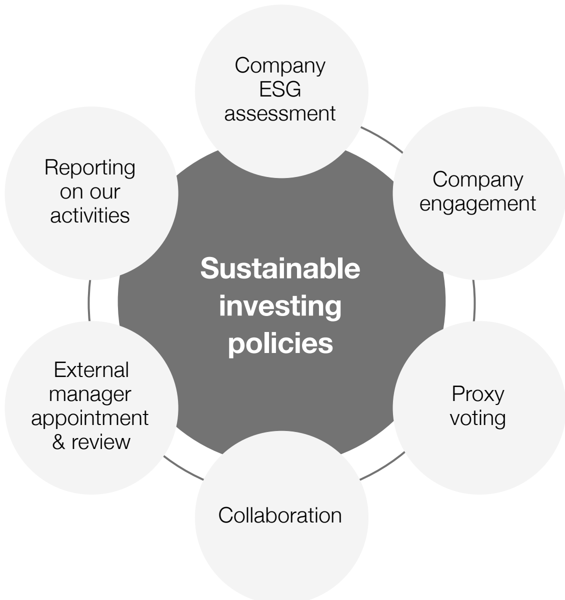
# Sustainable Investing Bulletin

**Half-year ended 30 June 2023**

Welcome to TelstraSuper's Sustainable Investing Bulletin, summarising our sustainable investing activities for the half-year ended 30 June 2023. 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**

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




TelstraSuper's Sustainable Investment Policy can be accessed here.

TelstraSuper

# Incorporating analysis of ESG factors in investment decision-making

## Second Climate Change Report

In April 2023, TelstraSuper published its second Climate Change Report. The report outlines our progress against our Climate Change Action Plan and what steps we are taking to meet our interim goals and achieve net zero by 2050.

Key highlights of the second report are:

1. Disclosure of the emissions profile of all listed assets as at 30 June 2022, highlighting a 23% decrease from the baseline measurement taken at 1 October 2020. This is ahead of our 10% reduction goal set for 2023 and nearing our 25% reduction goal set for 2025.
2. The outcomes of the physical and transition risk assessment undertaken on TelstraSuper's unlisted infrastructure assets during 2022, summarising the net-zero alignment of these portfolios.
3. Disclosure of the emissions profile of TelstraSuper's unlisted infrastructure and property portfolios at 30 June 2022, providing a baseline for future reference.
4. Profiles on Finerge and Atlas Renewable Energy as two important examples of TelstraSuper's interests in renewable asset investments.
5. Profiles on Charter Hall and Lendlease as asset managers engaged by TelstraSuper whose investment processes and objectives are consistent with our Climate Change Action Plan.
6. TelstraSuper's commitment to investing in clean energy and new technologies that support decarbonisation. In December 2022, the Board established a goal of investing a total of 1% of the Fund's assets – around $250 million – in climate change-focused opportunities by 2025. Investment in these opportunities currently stands at around $130 million.

## ESG Company Ratings

TelstraSuper continues to develop its internal 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 68 companies that TelstraSuper either invests in or is under consideration for investment by TelstraSuper's internal equities investment team that we consider may have material, inherent ESG risks.

The table below summarises our internal ratings.

**Risk rating of companies (#)**

| Risk Factor | Low | Moderate | High | Total |
|---|---|---|---|---|
| Environmental | 33 | 29 | 6 | **68** |
| Social | 6 | 46 | 16 | **68** |
| Governance | 8 | 34 | 26 | **68** |
| **Overall risk** | **6** | **52** | **10** | **68** |

Each company is rated low, moderate or high risk in each of the three factors (Environmental, Social and Governance). The overall risk is a weighted average of all three factors based on the materiality of the factors, which are sector dependent.

### Key matters to note are:

1. The majority of the 68 companies rated have been assessed by us as having a moderate ESG risk overall.
2. Where we have material concerns over specific ESG risks for companies in which we invest or in which we are considering acquiring shares, we generally seek to engage directly or in collaboration with other investor groups or associations with the companies' management to understand further the nature and extent of any such ESG risks.

3. Ten companies have been assessed as having high overall ESG risk, eight of which are companies in which TelstraSuper is invested. We've engaged either directly or collaboratively with these companies at the Board and/or management level to understand how they plan to reduce or mitigate their ESG risks.
4. Where we have material concerns that a company's board or management is not considering or managing material ESG risks appropriately, we seek, where possible, to use our proxy votes to influence positive change. Where we are not satisfied that a company's board or management are responding to manage material ESG risk, we may consider divestment of the security.

## Reviewing new external investment manager appointments

During the half year, three external investment managers' approaches to ESG integration were reviewed as part of TelstraSuper's due diligence relating to new investments. Our assessment confirmed these external investment managers satisfactorily integrated the consideration of material ESG factors into their investment processes. All three investment managers were appointed – one in private equity and two in the opportunities asset class.

## Co-investment and follow-on investment reviews

As part of a co-investment opportunity with an external private equity investment manager, a review of the ESG credentials of the target asset was undertaken. TelstraSuper chose not to proceed with this co-investment opportunity, given the risk profile of the industry in which the company participated and the company's operating model.

As part of a follow-on investment opportunity with an existing external investment manager in the alternatives asset class, we conducted a fresh review of how the manager considers material ESG factors in its investment process. We assessed the manager's approach as continuing to be satisfactory and proceeded with the follow-on investment.

## External investment manager monitoring

TelstraSuper monitors how its external investment managers integrate consideration of material ESG factors into their investment processes. We expect our external investment managers' practices to be consistent with our Sustainable Investment Policy and proxy voting policy.

Many of our external investment managers provide regular ESG reporting on engagement, advocacy, and stewardship activities. In addition, we meet periodically with our external investment managers to discuss material ESG matters, including corporate governance and voting, climate change risk, worker safety, modern slavery and sustainability reporting. Many of these matters are long-duration and are discussed on an ongoing basis.

As part of our ongoing engagement with International Equities external investment managers on material ESG matters, TelstraSuper's Head of Equities conducted on-site meetings with six appointed investment managers during the half year. The meetings provided insight into the material ESG risks these managers are focused on and confirmed each manager is incorporating sound responsible investment practices.

## Australian Asset Owner Stewardship Code

TelstraSuper is a signatory to the Australia Asset Owner Stewardship Code. This initiative aims to enhance the quality, transparency and accountability of stewardship activities in Australia. TelstraSuper's Stewardship Statement outlines the six principles of the Code and our approach to them.

## Portfolio Exclusions

TelstraSuper's listed equities and corporate debt holdings are reviewed periodically to ensure they have maintained compliance within the parameters of our mandated exclusions of enterprises materially involved in tobacco manufacture, controversial weapons manufacture, and prime-focus thermal coal extraction. Where non-compliance is identified, we seek to divest these non-complying investments in an orderly fashion as soon as practicable.

In response to Russia's invasion of Ukraine, in March 2022, 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. This instruction remains in place. However, it should be noted that the Fund may have legacy exposure to / own Russian securities or debt instruments where the external investment manager has been unable to divest the assets given there is no functioning market in which to transact, there are no buyers for the asset, or Russia has banned foreign investors from transacting in the securities.

# Active ownership and stewardship practices

## Direct & collaborative 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 24 listed companies and participated in 35 meetings on various sustainable investment matters. 31 of these meetings were undertaken on a collaborative basis with ACSI. The charts below summarise these meetings.

**Matters discussed with companies:**

| | |
|---|---|
| Biodiversity | 3 |
| Climate Change | 18 |
| Cyber risk | 1 |
| Diversity | 5 |
| Governance | 10 |
| Modern Slavery | 2 |
| Remuneration | 15 |
| Social Impact | 12 |
| Strategic Update | 14 |
| Worker Safety | 9 |

| Company / Stakeholder Engaged | ESG meetings |
|---|---|
| Adbri Ltd | 1 |
| Ampol Ltd | 1 |
| Aristocrat Leisure Ltd | 1 |
| Atlas Arteria | 1 |
| Endeavour Group Ltd | 1 |
| Aurizon Holdings Ltd | 1 |
| BHP Group Ltd | 1 |
| BlueScope Steel Ltd | 1 |
| Brambles Ltd | 1 |
| Coles Group Ltd | 1 |
| Insurance Australia Group Ltd | 1 |
| Iluka Resources Ltd | 2 |
| James Hardie Industries Plc | 1 |
| Lendlease Group | 1 |
| Macquarie Group Ltd | 1 |
| National Australia Bank Ltd | 2 |
| QBE Insurance Group Ltd | 1 |
| RIO Tinto Ltd | 3 |
| SOUTH32 Ltd | 1 |
| Santos Ltd | 2 |
| Suncorp Group Ltd | 1 |
| Westpac Banking Corporation | 2 |
| Worley Ltd | 1 |
| Woodside Energy Ltd | 6 |
| **Total** | 35 |

## Key ESG matters in focus

### Environment

#### Climate Change Strategy

Over the past two years, some of Australia's largest listed companies that generate significant greenhouse gas emissions across their own operations and whose customers generate substantial emissions by using their products have included "Say on Climate" resolutions at their annual general meetings (AGMs) 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.

TelstraSuper has held active positions in a number of Australian companies that have conducted these votes, including BHP, Rio Tinto, Santos, South 32 and Woodside Energy. As previously reported in past editions of this Bulletin, TelstraSuper supported the "Say on Climate" resolutions of the first four of these companies and voted against the climate strategy of Woodside Energy at its AGM held in May 2022. The concerns we had with the published Woodside climate plan at the time were:

1. The medium-term emissions reduction target employed by Woodside heavily relies on carbon offsets.
2. 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.
3. 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.
4. 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, which have created material competing priorities; and
5. No meaningful work has been done on understanding or planning for Scope 3 emission reduction.

Since the May 2022 AGM, TelstraSuper has continued to engage with Woodside Energy's Board and management team, both collaboratively and directly, to understand how the company is developing its climate change planning to manage the concerns identified.

In February 2023, Woodside Energy published its 2022 Climate Report. TelstraSuper's review of the report, in conjunction with analysis undertaken by ACSI and the Climate Action 100+ working group, revealed that little progress had been made by Woodside on addressing the concerns we had identified with its climate planning at the time of the 2022 AGM. Our collaborative follow-up engagement with Woodside management and Board members post the report's publication confirmed our analysis.

Where companies consistently do not meet our expectations on climate change governance, strategy, and disclosure, TelstraSuper will consider voting against the election of individual directors most accountable for oversight of climate change-related risks. This is an escalation strategy within TelstraSuper's approach to active ownership.

As Woodside hadn't advanced its climate planning over the 2022/23 year, TelstraSuper determined it appropriate to vote against the re-election of Mr Ian Macfarlane as a director of Woodside Energy at the company's AGM held in April 2023. Mr Macfarlane was identified as the most senior director standing for election, having been a non-executive director since November 2016 and is a member of the Board's Sustainability Committee, which has direct accountability for the group's oversight of climate change-related risks. While the motion to re-elect Mr Macfarlane was carried, 34.9% of votes cast were AGAINST his re-election.

At the 2023 AGM, Woodside Energy committed to further developing its climate planning during the 2023 year. This included a second Board-supported "Say on Climate" resolution for shareholders to consider at the next AGM to be held in April 2024.

TelstraSuper has continued to engage collaboratively with Woodside since the 2023 AGM and looks forward to Woodside advancing its climate change planning and strategy over the next six months in advance of the 2024 AGM.

## Social Impact

### Modern slavery and human rights

Over the past twelve 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 Group, QBE, Bapcor and Fortescue Metals Group.

In June 2023, TelstraSuper attended the Australian Government's Modern Slavery Conference, which was convened by the Commonwealth Attorney-General's Department. The theme of the conference was 'Taking Action Together,' reflecting the importance of collaboration between business, government, and civil society to address modern slavery.

For investors such as TelstraSuper, the conference highlighted the importance of active investor engagement to improve business practices. This includes encouraging enterprises we invest in to push for greater transparency across the supply chain to identify and combat modern slavery.

The conference also highlighted the increasing role of technology in helping businesses detect and combat modern slavery. Case studies highlighted how a number of companies that TelstraSuper invests in are using technology and working collaboratively with businesses in offshore supply chains to identify and mitigate potential instances of modern slavery.

### Cyber risk

Against the backdrop of increasing cyber risk incidents across the corporate landscape over the last year, TelstraSuper collaboratively engaged with eight investee companies that we considered potentially at risk of material adverse customer and shareholder outcomes in the event of a cyberattack. This engagement provided a better understanding of how these companies assess and mitigate this risk.

We also undertake due diligence reviews on the cyber risk capabilities of our external investment mangers and custodians on their appointment and periodically during the term of their engagement.

## Governance

### Remuneration policies

In January 2023, the Australian Prudential Regulatory Authority (APRA) introduced a Prudential Standard on remuneration arrangements (CPS511) for the financial institutions it regulates, which includes ASX-listed banks and insurers. Two key requirements of CPS511 are that remuneration frameworks incorporate:

1. Non-financial measures when determining variable remuneration; and
2. Deferral of remuneration, including that at least 60% of a CEO's total variable remuneration be deferred over a minimum period of six years, while 40% of a senior executive's variable remuneration be deferred over five years.

TelstraSuper believes that the remuneration of directors and executives should be designed to provide long-term alignment with security holder interests. We expect variable remuneration performance hurdles to be demanding and relevant, incorporate a sound balance of financial and non-financial metrics, be genuinely 'at risk' and represent a true incentive for performance above the executive's core duties. We believe that many elements of CPS511 reinforce our preferred remuneration framework structure.

Over the past half year, TelstraSuper collaboratively engaged with several banks and insurers, including National Australia Bank, Westpac, Suncorp and IAG, to discuss the changes they are proposing to their remuneration frameworks in response to CPS511. Where relevant, we provided our feedback on proposed changes and stated our preference for performance metrics to be relevant, measurable and demanding and that deferred remuneration be subject to performance testing prior to vesting.

### 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 31 meetings with companies in which we invest 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 CEO pay in ASX200 companies and Modern Slavery reporting in ASX200 companies. 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/outsourcing.

# Encouraging good ESG disclosure by investee companies

TelstraSuper provides feedback to a number of the companies we invest in on their ESG disclosures in various investor and/or public-facing reporting documents. Over the past half year, we have collaboratively engaged with Woodside Energy Group on their climate risk planning, proposed actions and disclosures. Woodside has indicated its commitment to further developing and refining its public reporting around climate risks for the 2023 reporting cycle in preparation for its 2024 AGM.

## Proxy voting

As an active owner, TelstraSuper seeks to exercise all proxy votes for listed Australian and, through its external investment managers, its 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:**

ACSI
Joined Member Council June 2020

Investor Group on Climate Change
Member of the Physical Risk and Resilience Working Group

PRI Principles for Responsible Investment

aist Australian Institute of Superannuation Trustees

asfa the voice of super

Climate Action 100+

riaa Responsible Investment Association Australasia

40:40 Investor Signatory

## Advocacy and collaboration cont.

**Australian Treasury Engagement**

In June 2023, the Australian Treasury consulted on the structure of Your Future Your Super benchmarks used to assess superannuation product performance. In collaboration with the Responsible Investor Association of Australasia (RIAA), TelstraSuper engaged with Treasury representatives to discuss how investment products with responsible or sustainable investment criteria may be incorporated into performance benchmarks. A private follow-up submission was made by the RIAA working group for consideration in the Treasury's next revision of the benchmarks and performance testing mechanism.

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

- ACSI annual conference
- RIAA annual conference
- The Shared Value Project ESG Investor forum
- Australian Government Modern Slavery Conference
- IGCC working group meetings
- Climate Action 100+ Working Group
- CII conference
- 40:40 Vision working group meetings

The team also attended briefings with various subject matter experts that covered various sustainable investing issues.

Such topics included:

- Biodiversity
- 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 also produce videos and news articles for members on our activities 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

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This Sustainable Investment Bulletin is provided by TelstraSuper Pty Ltd (ABN 86 007 422 522, AFSL 236709), the trustee of the Telstra Superannuation Scheme (ABN 85 502 108 833).