

Sustainable Investing Bulletin

from TelstraSuper

Year ended
30 June 2020



This Bulletin summarises our sustainable investing activities for the year ended 30 June 2020.

Our approach to Sustainable Investment follows the guidelines of the UN Principles for Responsible Investing (PRI), which are:

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

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Active ownership

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ESG disclosure by investee companies

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Advocacy and Collaboration

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Reporting on our activities



TelstraSuper's Sustainable Investment Policy can be accessed [here](#).

Incorporating ESG Issues into Investment Analysis and Decision-Making

External Manager Selection and Monitoring

- Eighteen managers were reviewed during the financial year for new or follow-on investment. Thirteen of these managers were subsequently appointed or recommended.
- Five new managers were approved in Australian Equities, two in International Equities, four in Alternatives and two in Property. Our assessment confirmed the approved managers integrate ESG analysis in their investment processes.
- A comprehensive review was also undertaken on two incumbent Australian equities managers and one International manager. All three managers were assessed as having strong ESG capabilities.
- These reviews involve validating the manager's integration of ESG activities into its investment process and discussing key portfolio holdings.
- ESG issues covered with incumbent managers were corporate governance, voting activity, climate change, worker's rights and modern slavery.

Internal Investment Management

Australian Equities

- The Australian Equities and Sustainable Investing Team developed an ESG assessment tool for Australian companies and commenced rating the top 200 listed companies on the ASX.

Fixed Income

- Met with several sustainable finance and green bond issuers.

Portfolio ESG Analysis

- Reviewed fund holdings to ensure compliance with tobacco and controversial weapon exclusions
- Carried out analysis to assess portfolio climate risks

Other ESG Activities

- Appointed a dedicated resource to lead Sustainable Investing practice
- Responded to several member queries relating to climate change matters
- Assessed several tools to assist in identifying and analysing ESG risks
- Undertook a Member and Staff survey on Sustainability and ESG preferences

During the year 22 meetings were held with companies specifically on ESG matters.

Active Ownership

Direct Engagement

Australian Listed Companies

TelstraSuper takes an active ownership position which means that we engage with the companies we invest in and vote on decisions at their company meetings.

Throughout the year we engaged with company boards and executives on a range of issues. We had 22 company meetings specifically on ESG issues. The issues discussed with the companies were in relation to both specific concerns and other matters of an ongoing nature, some of which are discussed in detail on page 4. We also undertake reviews of smaller companies as part of internal investment management processes.

The following tables respectively list these meetings and the companies that we reviewed.

Company	ESG Matters	Strategy/ Operating Update
Aristocrat Leisure	1	2
Ancor plc	1	-
ANZ Banking Group	-	2
BHP Group	2	-
Brambles Limited	-	2
Commonwealth Bank	2	2
Carbon Revolution	-	2
Coca-Cola Amatil	1	-
Charter Hall Long WALE REIT	-	1
Cromwell Property Group	-	1
Chorus	-	1
Caltex	-	1
Insurance Australia Group	1	-
Ingenia Communities Group	-	1
Incitec Pivot	-	1
Karoon	-	1
Lendlease	1	-
Livehire	-	2
Macquarie Group	1	-
Mirvac	-	1
Medibank Private	-	1
National Australia Bank	-	2
Ooh! Media	-	1
Origin Energy	-	1
Pivotal Systems	-	2
Qantas Airways	1	2
QBE Insurance	1	-
Rural Funds Group	-	3
Saracen Minerals	-	1
Scentre Group	-	1
Sky City Entertainment Group	-	1
Suncorp Group	1	2
Transurban	1	-
Telstra	2	2
Wesfarmers	1	-
Westpac Banking Group	3	2
Woolworths	2	1
Woodside Petroleum	-	2
Total Meetings	22	44

92 ASX Company Reviews Undertaken

Ausinate Group	Domain Holdings	Kogan.com Ltd	PWR Holdings
AFG Home Loans	Data #3 Limited	Kathmandu Holdings Ltd	RED 5 Limited
AMA Group	Elders Limited	Lifestyle Communities	Ramelius Resources
AP Eagers	EML Payments	Lovisa Holdings	Regis Resources
Appen Limited	Fineos Corporation	Livehire Limited	Resolute Mining
ARB Corporation	Fisher & Paykel Healthcare	Lynas Corporation	St Barbara Limited
AUB Group	G8 Education Ltd	Mineral Resources	Steadfast Group Ltd
Accent Group	Gold Road Resources	McMillan Shakespeare	Sandfire Resources
Bapcor	GUD Holdings	Monadelphous Group	Smartgroup Corporation
Bingo	GWA Group Ltd	Money 3 Corporation	Superloop Limited
Blackmores Group	Galaxy Resources	Mystate Limited	Sealink Travel Group
Breville Group Ltd	Healius Ltd	Nanosonics Limited	Silver Lake Resources
Bravura Solutions Ltd	HUB 24 Ltd	Nearmap Ltd	Service Stream
Catapult Group Int Ltd	Integral Diagnostics	New Hope Corporation	Super Retail Repco Ltd
Carbon Revolution	IDP Education Ltd	Nickelmines Limited	Tassal Group
Credit Corp Group	IOOF Holdings Ltd	National Storage	Technology One
City Chic Collective	IGO Limited	NRW Holdings	Tyro Payments
Costa Group Holdings	Imdex Limited	Netwealth Group	Viva Energy Group
Charter Hall Group	Ingenia Group	Orocobre Limited	Vocus Group Ltd
Collins Food Ltd	IPH Limited	Pilbara Minerals	Virtus Health
Cooper Energy Ltd	Invocare Limited	Pro Medicus Limited	Webjet
CSR Limited	Janus Henderson Group	Polynovo Limited	Western Areas Ltd
Carnarvon Petroleum	Jumbo Interactive	Perenti Global Ltd	Zipco Ltd

Collaborative Engagement

Australian Council of Superannuation Investors (ACSI)

In addition to our own direct engagement, ACSI, of which TelstraSuper is now a full member, conducts extensive engagement and research activities. ACSI also meets with most Australian listed companies and produces proxy voting advice for AGMs. During 2019/20, ACSI held 300 meetings with 200 companies on matters including board composition, diversity, remuneration, worker safety and rights and governance.



For more detail about ACSI please click [here](#).

Externally Appointed Managers

TelstraSuper's externally appointed managers also engage with investee companies and assets. We obtain regular feedback from our appointed managers on these engagements. For companies in focus, we discuss engagements with managers in order to understand varying views and progress being made.



Environmental

Climate Action 100+

Climate Action 100+ is a global investor collaboration that engages directly with companies to promote adoption of the goals of the Paris Agreement. In Australia, 16 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 [ClimateAction100+](#).



Social

Modern Slavery and human rights in the supply chain

The Modern Slavery Act became effective on 1 January 2019. Modern slavery refers to exploitation of workers including forced labour, intimidation, violence, confiscation of passports or debt bondage. The Act requires Australian companies to examine their own operations and supply chains to identify, prevent, mitigate and address potential instances of modern slavery. Australian companies are required to make an annual statement on their approach.

TelstraSuper is required to produce its own Modern Slavery Statement by 31 March 2021 and considers investment management and the companies in which we invest part of its operations and supply chain. We therefore engage extensively with the companies in which we are shareholders on this matter directly, through the external managers we have hired and collaboratively via the investor organisations of which we are a member.

Worker Safety

Worker safety is a key topic of discussion with all companies that we engage with. While some industries such as mining and construction are very focussed on preventing worker injury, the COVID-19 pandemic has highlighted the importance of social responsibility in relation to worker safety for all companies.

Tobacco-Free Finance Pledge

We're signatories to the United Nations Tobacco-Free Finance Pledge. The Pledge recognises leading financial organisations that have implemented tobacco-free finance policies. This move demonstrates TelstraSuper's commitment to the tobacco-free finance movement and showcases our leadership in sustainability.



Governance

Westpac – AUSTRAC matter

TelstraSuper met with Westpac's former Chairman soon after the highly concerning issues about Westpac's compliance with its anti-money laundering and counter-terrorism financing obligations were disclosed. Following a series of meetings with us and other large investors, the Westpac board took actions to address accountability and improve risk management and board oversight. While TelstraSuper agreed with many of the actions taken, we voted against some of the key resolutions at Westpac's 2019 AGM to voice our concerns on this serious matter.

Fairness in Capital Raisings

With a significant amount of capital being raised in response to the COVID-19 pandemic, we have collaborated with ACSI to call for greater disclosure and transparency from companies on decisions taken. We know from past experience that poorly executed capital raisings can cost superannuation fund members large amounts collectively, at a time when retirement savings are being impacted by market turmoil. TelstraSuper has been encouraged by the disclosure of the ASX100 companies that have raised equity and the decisions taken to allocate capital raised primarily to existing shareholders.

ESG Disclosures by Investee Companies

TelstraSuper has provided feedback to Commonwealth Bank, IAG, Telstra, Wesfarmers and Westpac on ESG disclosures made by these companies in their various reporting documents. The feedback was on Climate Impact statements and description of the work undertaken as part of supply chain reviews for the purpose of Modern Slavery statements.

Other recurring topics

TelstraSuper also regularly engages with companies on the following topics:

- Remuneration
- Board capability and tenure
- Stakeholder engagement
- Cyber and data security
- Offshoring / outsourcing
- Waste and recycling

Spotlight on...

UN PRI 2020 Investment Practice Assessment Report



Each year every PRI signatory reports to the PRI on their responsible investment practices and how they apply the guidelines. TelstraSuper has been a PRI signatory since 2007 and the annual assessment process is an important benchmark for us to measure progress.

In 2020 we have been successful on several fronts, in particular receiving a Top Score of A+ for Strategy and Governance, an improvement from the A awarded last year. Other notable achievements are:

- Improving our rating for Infrastructure from A to A+
- Improving our rating for Active Ownership of Internal Australian Equities from B to A.

- Being awarded an A+ rating in 8 of the 12 categories applicable to TelstraSuper
- Being rated ahead of the median peer group in 11 of the 12 categories.

These achievements are particularly pleasing as median scores for all signatories are increasing as investment organisations globally work on improving responsible investment practice. Accordingly, as this is a relative assessment, TelstraSuper is pleased to be reporting continual improvement.

With further Sustainable Investing initiatives underway, we look forward to maintaining our relative position. Our results since 2018 are listed in the table below.

Responsible Investment Practice Module	2018 Score	2019 Score	2020 Score	2020 Median	Trend
Strategy and Governance	B	A	A+	A	↑
Indirect – Manager Selection, Appointment and Monitoring					
Listed Equity	A	A+	A+	A	↔
Fixed Income – SSA	A	A	A	B	↔
Fixed Income – Corp Financial	A	A+	A+	A	↔
Fixed Income – Corp Non-Financial	A	A+	A+	A	↔
Fixed Income – Securitised	A	A+	A+	A	↔
Private Equity	A	A+	A+	A	↔
Property	A	A+	A+	A	↔
Infrastructure	A	A	A+	A	↑
Direct – Active Ownership Modules					
Listed Equity – Incorporation	A	A	A	A	↔
Listed Equity – Active Ownership	B	B	A	B	↑
Fixed Income	E	B	B	B	↔



For additional information, read our [PRI Assessment Report](#) or access the [PRI Transparency Report](#).

Proxy Voting

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

TelstraSuper has recently launched a Proxy Voting Dashboard that provides both a high-level summary of voting activity and detailed information on how we voted on every resolution at company meetings. Voting data is available from 1 July 2018 onwards and is up to date.



The TelstraSuper Proxy Voting Dashboard can be accessed [here](#).

Advocacy and Collaboration

TelstraSuper recognises the power that collaboration can have in getting the best outcomes for investors. We have a number of strategic partnerships and regularly work with wider industry to 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

Over the past year, our Head of Sustainable Investing has participated in a number of conferences and events that seek to promote sustainable investing. These included:

- IGCC 2019 Summit
- Climate Action 100+ Workshops
- RIAA 2020 Virtual Conference Series
- Responsible Investor 2020 Digifest
- PRI – Toward a Resilient and Sustainable Economy 2019

We also attend briefings that cover a wide variety of Sustainable Investing issues. Topics have included:

- Climate and carbon risk
- Green Finance
- Modern Slavery reporting
- Climate related financial reporting
- Impact Investing
- Practical use of the UN Sustainable Development Goals
- Electric vehicles
- ESG risks in fixed income
- Renewable Energy Investing

During the year we also participated in an academic study in relation to institutional investor proxy voting and company engagement processes and outcomes.

TelstraSuper also regularly holds informal dialogue with our peers on a broad range of matters that assist with our understanding of sustainable investing issues.

Reporting on our Activities

In addition to this bulletin, TelstraSuper members can read about our stewardship activities on our dedicated responsible investment page on the TelstraSuper website.



The responsible investment page can be viewed [here](#).

We also produce videos and news articles for members on activities on an ad-hoc basis and share information through our quarterly member newsletter.