

Sustainable Investing Bulletin

Half-year ended 31 December 2021

Welcome to TelstraSuper's Sustainable Investing Bulletin, summarising our sustainable investing activities for the half-year ended 31 December 2021. 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: UN Sustainable Development Goals

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





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

Second Modern Slavery Statement published

TelstraSuper published its second [Modern Slavery Statement](#) in November 2021.

TelstraSuper considers investment management a part of our operations and supply chain. We regularly engage on Modern Slavery with the external managers that we have appointed. During 2021 TelstraSuper surveyed 53 of its external managers to understand how they approach managing the risk of Modern Slavery in their own operations and in the investment portfolios they manage on behalf of the Telstra Superannuation Scheme (Fund). From this review, we found that over 30% of our external managers have published Modern Slavery Statements, and all had begun incorporating Modern Slavery assessments into their supplier codes of conduct and investment processes.

We continue to review external managers on their approach to managing Modern Slavery risk prior to their appointment and conduct periodic reviews on our existing external managers to assess progress with respect to mitigating Modern Slavery risks.

During 2021, we referenced Monash University's [Modern Slavery Statement Disclosure Quality](#) report to aid our assessment of the disclosure standards of companies within our Australian equities portfolio. We appreciate the assistance of the research fellows from the Monash Centre for Financial Studies who authored the report in developing our understanding of their approach and findings. We will continue to reference Monash's research to help inform our future engagement with Australian companies.

In December 2021, TelstraSuper's internal investment teams participated in a bespoke training session delivered by ACSI. The purpose of the training was to improve our teams' awareness of modern slavery issues to assist with investment decision-making.

External manager appointment

Eight 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.

One new manager was approved in Australian equities, three in international equities, three in alternatives and one in property. Our assessment confirmed the approved external managers satisfactorily integrated ESG analysis in their investment processes.

Climate Change Action Plan

In February 2021, the TelstraSuper Board adopted a [Climate Change Action Plan](#). An implementation progress report was previously provided in the June 2021 [Sustainable Investing Bulletin](#).

In this half-year we have continued to deliver on the plan by undertaking the following actions:

- TelstraSuper's Board and investment team participated in a bespoke climate awareness forum which included specialised insight from the Investor Group on Climate Change on COP26.
- Began collecting carbon emissions data from our external managers to understand the carbon footprint associated with our investments in unlisted Infrastructure and Property.
- Consulted with external managers to discuss their commitment to setting emissions reduction targets and developing plans to achieve these both within our managed investment portfolios and the managers' own business operations.
- Developed a bespoke internal "green/brown" carbon emissions assessment tool for the infrastructure portfolio to assess climate transition risk exposure.
- Developed a draft Task Force on Climate-Related Financial Disclosures report.
- Submitted the first Climate League 2030 report for initiatives undertaken during 2021.

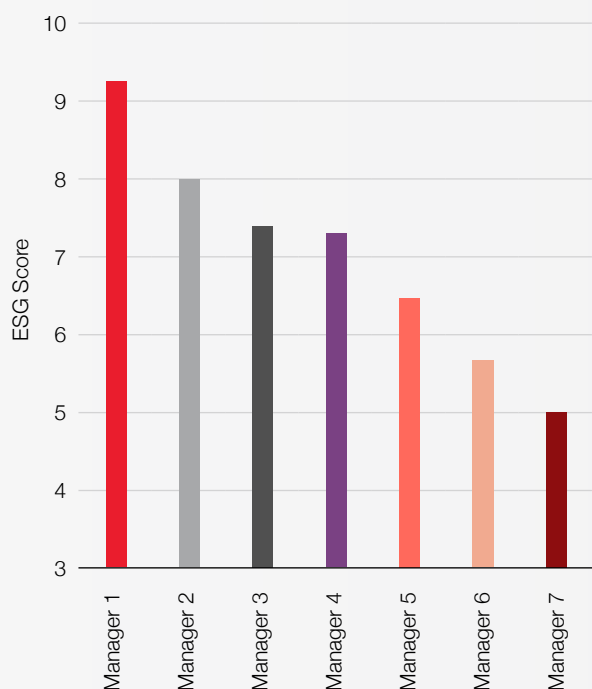
Infrastructure and property manager reviews

TelstraSuper undertook a comprehensive review of our seven largest infrastructure and property managers to assess how they manage ESG risk including climate change. As part of the review, we developed a proprietary climate risk assessment framework to score managers' performance and engage explicitly on the transition to lower carbon investments and manage physical climate change risks within the relevant investment portfolios.

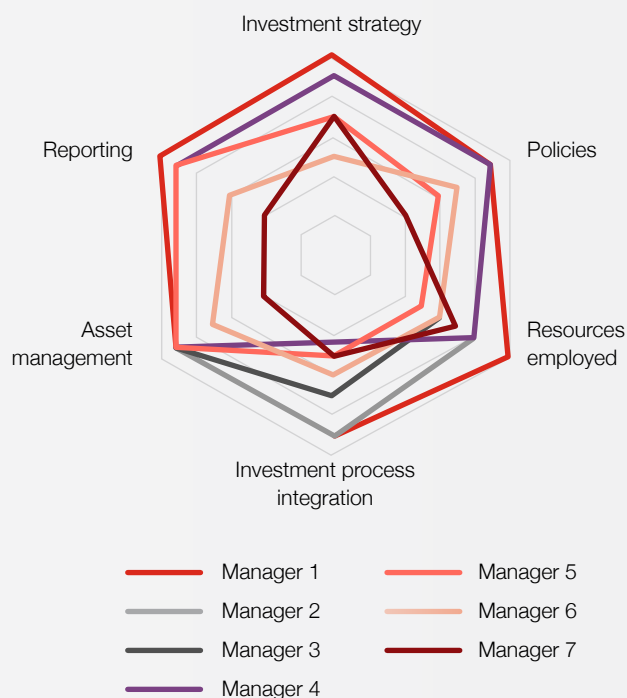
The outcome was that four external managers were assessed as having very good to excellent overall ESG capabilities, and three were assessed as having reasonably good ESG capabilities.

Overall, we are satisfied that all managers we reviewed have clear commitments, policies, and resources sufficient to integrate ESG considerations into their investment processes.

Property and infrastructure manager ESG overall scores – July to December 2021



Property and infrastructure manager ESG category scores – July to December 2021



ESG company ratings

TelstraSuper has developed a bespoke ESG rating tool to assess Australian listed companies that our internally managed equities investment portfolio may hold. Our approach incorporates qualitative and quantitative analysis based on multiple resources such as internal research, Sustainalytics, ACSI, MSCI, S&P Global, company reports and engagement meetings.

To date, we have employed the ratings tool to analyse companies within the investment universe that we consider have material inherent ESG risks. The companies analysed operate in multiple sectors including banking, insurance, energy and resources, building materials, property and entertainment. The initial focus has been on the largest companies 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	18	13	3
Social	4	21	9
Governance	6	14	14
Overall ESG	5	23	6

Key matters to note are:

- The majority of stocks rated internally to date have been assessed as having a moderate ESG risk overall.
- Six companies have been assessed as having high overall ESG risk. TelstraSuper does not actively own four of these companies and has engaged with the other two companies in which it does hold an active ownership position. This is to better understand 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.
- Where we have material concerns over specific ESG risks for companies in which we own shares or are considering acquiring shares, we, when appropriate, seek to engage with the management of those companies to further understand the nature and extent of any such ESG risk.
- 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.

Portfolio ESG analysis

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

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.



Active ownership policies and practices

Direct engagement

Australian listed companies

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

During the half-year, we engaged with 35 listed companies on a range of issues. We had 47 meetings with directors and/or management of those companies specifically on ESG issues. Below is a summary of these meetings.

Company	ESG meetings
Ampol	1
ANZ Bank	1
Bapcor	1
BHP Group	3
Bluescope Steel	1
Boral	1
Charter Hall Group	1
Coles Group	1
Commonwealth Bank	2
Deterra	1
Endeavour Group	1
Fortescue Metals Group	4

IAG Ltd	1
Incitec Pivot	1
James Hardie	1
Lendlease	1
Medibank Private	1
Metcash Limited	1
NAB	2
NIB Health	1
Northern Star	1
Origin Energy	2
Qantas	1
QBE	1
Ramsay Healthcare	1
REA Group	1
Rio Tinto	1
South32	2
Steadfast Group	1
Suncorp Group	2
Telstra	1
Transurban	1
Westpac	3
Woodside	1
Woolworths Group	1
Total	47

Matters discussed with companies:

Strategic Update	14	
Governance	26	
Remuneration	30	
Worker Safety	11	
Modern Slavery	6	
Social Impact	14	
Climate Change	24	
COVID-19	10	

Key ESG matters in focus

Environment

BHP 'Say on Climate' vote

In August 2021, BHP Group proposed that investors would have the opportunity to provide feedback on its climate change transition strategy through an advisory vote titled 'Say on Climate' every three years. While TelstraSuper is supportive overall of BHP's climate change transition plan, we did raise our concern directly with BHP management that the proposed time-frame for investors to review the climate strategy once every three years was too infrequent given the high degree of change in environmental and technology factors over that time-frame. The other concern was that this approach would establish a benchmark for other companies that would hold a similar 'Say on Climate' vote in 2022. We were pleased that at its AGM, BHP recognised that some investors had raised concerns regarding the 'Say on Climate' vote time-frame and gave public assurances that investors would be given more frequent opportunities to provide feedback on the climate change strategy as material changes occurred.

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 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

Modern slavery and human rights by external managers

Over the past six months, direct engagement was undertaken 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 Metcash, Bluescope Steel, Woolworths, Ramsay Healthcare and Ampol. We will continue to engage with the companies in which we invest to understand and assess Modern Slavery risk existing within their supply chains.



Governance

Remuneration policies

Remuneration policies and practices of Australian listed companies continued to be a key governance concern. TelstraSuper engaged with 30 companies during the half-year on this issue. Areas of particular concern included: the nature of performance hurdles associated with short and long-term incentives; misalignment of remuneration policies and practices when compared against shareholder outcomes, and the magnitude of proposed rewards for executives and their parity with broader workforce emolument initiatives. As a consequence of our concerns, TelstraSuper voted against the remuneration reports and/or the award of long-term incentives to executives at several company annual general meetings held during the half-year to 31 December 2021. These companies included: Commonwealth Bank of Australia, Charter Hall, Goodman Group and Transurban.

ACSI membership

In addition to our own direct engagement with listed companies, 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 35 meetings hosted by ACSI during the half-year and, where appropriate, provided direct feedback to companies engaged. In the half-year, ACSI has published research reports on Company Engagement with First Nations People, Biodiversity and natural capital, climate disclosures, Modern Slavery, and CEO Pay in the ASX200. For more detail about ACSI, please [refer here](#).

ACSI Governance Guidelines Review

The new [ACSI Governance Guidelines](#) were published on 15 December 2021. They were developed to reflect ACSI member funds' current expectations concerning the management of risks. The guidelines will be used by ACSI and its member funds to guide engagement with the Australian listed companies in which member funds invest. TelstraSuper's Head of Sustainable Investment was a member of the ACSI Governance Guidelines Review Sub-committee.



ESG disclosure by investee companies

Where appropriate, TelstraSuper provides feedback to investee companies on ESG disclosures in their various reporting documents. In this half-year, feedback was provided to BHP, James Hardie, and Westpac on their sustainability reporting. All of these companies were appreciative of the insights provided and committed to further developing and refining their public reporting.

Other recurring engagement topics raised include: climate change, cyber-security, board capability, tenure, worker safety, 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, stakeholder 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



Investor Group on
Climate Change

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:

- ACSI 2021 Conference
- IGCC Working Group Meetings
- BNP Paribas Biodiversity Roundtable
- Qontigo implementing the UN SDGs Roundtable
- Sustainability in Practice 2021 Conference
- Responsible Investor Forum: APAC Investor Day 2021
- Macquarie Green Energy Conference 2021
- Climate Action 100+ Working Group.

The Sustainable Investment Team also attended briefings that cover 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: UN Sustainable Development Goals

TelstraSuper's fundamental objective is to help provide a secure financial future for the Fund's members. We seek to incorporate best practice ESG considerations throughout our investment processes. We support the development of a more sustainable global economy and the attainment of the Paris Agreement goals on climate change.

The United Nations (UN) Sustainable Development Goals (SDGs) are 17 global goals to mobilise efforts to end all forms of poverty, fight inequality and tackle climate change. Investors may use the SDGs as a framework for assessing how their investments contribute towards a more sustainable and equitable future.

This spotlight piece considers how companies within TelstraSuper's listed equities portfolios may be contributing to the SDGs.

What are the UN SDGs?

The United Nations Sustainable Development Goals (SDGs) are a universal call to action to end poverty, protect the planet and improve the lives of everyone, everywhere. They comprise of 17 global goals that the world must aim to achieve by 2030 covering social and economic development and promote prosperity for our members.



Assessing TelstraSuper's portfolio alignment against the UN SDGs

At TelstraSuper, we believe that understanding how our investments contribute towards a more sustainable and equitable future is important. We use independent research to monitor the alignment of our listed equities portfolios with the SDGs. This independent research has included the engagement of [Sustainable Platform](#), an international and leading independent SDG and ESG data provider.

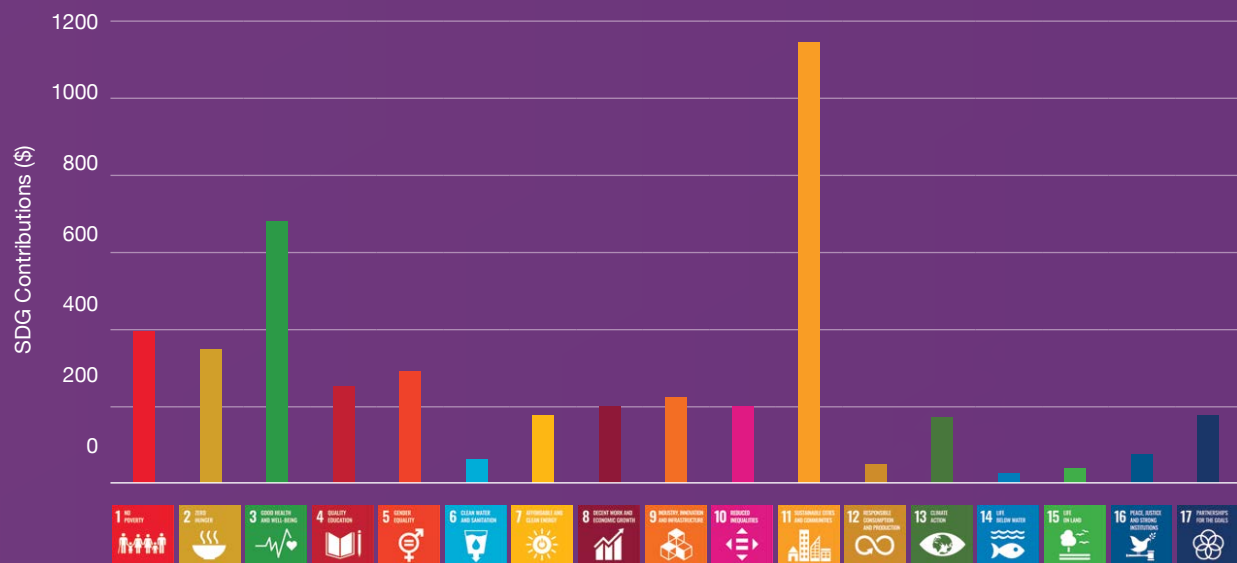
In 2021, TelstraSuper used the Sustainable Platform framework to assess how listed companies we own contribute to the SDGs. TelstraSuper's Australian and international listed equities portfolios were assessed as at 23 November 2021.

Sustainable Platform's research estimates the proportion of a company's revenue contributing to each of the 17 Sustainable Development goals. Where a company has a negative contribution to the SDG's, its contribution is discounted or eliminated should 20% or more of its revenues be negative contributors, such as the production of tobacco or fossil fuels.

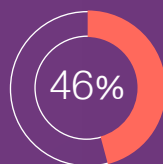
Using Sustainable Platform's methodology, it is estimated that 46% of TelstraSuper's listed Australian and International equities positively contributed toward the SDGs. The most significant areas of positive contribution are to:

- SDG 3: Good health and well-being
- SDG 8: Decent work and economic growth
- SDG 11: Sustainable cities and communities

TelstraSuper listed asset portfolio contribution to UN SDGs



Source: Sustainable Platform as at 23 November 2021, TelstraSuper analysis









Total Contribution: \$4,640 from a \$10k portfolio (equal to \$4,093 social impact contribution and \$546 environmental impact contribution)¹

¹ Includes BHP Group – Controversial Industry 39%

Many of the companies we invest in positively align with the SDGs and have a meaningful impact. The companies within TelstraSuper's Australian listed equities portfolios that are

making the most significant positive contribution to the SDGs are outlined below.

Companies in TelstraSuper's portfolio making a positive contribution

UN SDGs			Company
	Good health and well-being	Ensure healthy lives and promote well-being for all	CSL Limited Ramsay Health Care Telstra Corporation
	Gender equality	Achieve gender equality and empower all women and girls	Ramsay Health Care ANZ Banking Group Coles Group Limited
	Affordable and clean energy	Ensure access to affordable, reliable, sustainable and modern energy for all	BHP Group Wesfarmers Commonwealth Bank
	Decent work and economic growth	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	Woolworths Goodman Group BlueScope Steel
	Sustainable cities and communities	Make cities and human settlements inclusive, safe, resilient and sustainable	BHP Group National Australia Bank Transurban Group
	Climate action	Take urgent action to combat climate change and its impacts	Fortescue Metals Group QBE Group Westpac