



Sustainability Policy

Policy Owner: General Manager, Investments

VERSION	Approval Date	Approved By
4	22 July 2015	Board
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Non material or Board directive amendments were approved by the Policy owner on:

Date	Changes
16 December 2016	To align to changes agreed at the 8 December 2016 Investment Committee meeting with content on Rest's website
30 October 2017	Minor wording (grammatical) changes
14 November 2018	Non material amendments in section 5.3.2, 6.5 and 6.6
10 January 2019	Board directive change: Added reference to the Climate Change Policy in section 4
05 April 2019	Changes to section 3 on labour standards and ethical considerations; sections 4.9 and 5.1 on exclusions; and section 6 to align with the Investee Boards' Policy

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1. Introduction

- 1.1. Retail Employees Superannuation Pty Limited ('the Trustee') is the trustee of the Retail Employees Superannuation Trust ('Rest' or 'the Fund').
- 1.2. The Trustee recognises that sustainability issues and sustainability risks may have a material influence on the success of the Fund's investments over the long term. Further, the Trustee has a fiduciary responsibility to represent members' best interests in a manner which seeks to improve the long-term investment performance of the Fund.
- 1.3. In addition to this general fiduciary duty to act in the best interests of Rest members as a whole, the Trustee also has a duty to promote the financial interests of Rest members who are invested in the MySuper investment option.
- 1.4. For these reasons, the Trustee has developed this Sustainability Policy ('Policy') for the Fund, which outlines the Fund's beliefs in relation to sustainability and how such beliefs can be incorporated into the investment process.
- 1.5. This document forms part of the framework for the investment governance of the Fund's assets and complements the Investment Policy for the Fund.

2. Interpretation

- 2.1 References to 'investment managers' in this Policy refers to entities appointed by the Trustee and charged with the responsibility for overseeing and managing an investment of the Fund.
- 2.2 References to 'asset managers' in this Policy refers to persons or entities charged with the responsibility for overseeing and managing the underlying investments made by investment managers (e.g. the Board and senior management of listed companies, the Board of a business managing an unlisted physical asset, etc).
- 2.3 This Policy applies to all of Rest's investment managers.
- 2.4 References to 'investment' in this Policy refers to (but is not limited to):
 - An interest in a pooled investment vehicle;
 - Listed or unlisted investments held directly through a mandate, or indirectly through an interposed entity such as a pooled trust;
 - Direct investments.

3. Definition of 'sustainability'

- 3.1 'Sustainability' includes any factors which have the potential to impact the financial performance of Rest. These factors include, but are not limited to, the following:
 - 'ESG' factors to the extent that they relate to financial performance, including environmental (e.g. poor waste management practices, climate change), social (e.g. consumer protection, labour standards) and governance (e.g. executive compensation and alignment of interests) factors;
 - Exogenous factors such as technological advances and legislative change;
 - Factors which are intrinsic to the financial structure of an investment, such as leverage and refinancing risk.
- 3.2 Sustainability is a different, but related concept to an ethical investment approach, with the distinction being that an ethical investment approach generally involves making investment decisions in the context of a principles based approach (such as screening out investments which derive revenue from 'unethical' sources). However, it is acknowledged that ethical considerations are often conflated with sustainability factors, including for disclosure purposes.

3.3 Sustainability is fundamentally a strategic risk management issue. In this sense, investment managers that successfully identify sustainability factors and assess how such factors may impact the investment returns of a given investment, are best placed to contribute to the attainment of the Fund's stated investment objectives. The Trustee acknowledges that, in some instances, investment managers and asset managers may form the view that sustainability factors may not be a material risk in relation to a particular investment. This Policy addresses those instances where sustainability is considered a material risk.

4. Statement of the Trustee's beliefs in respect of 'sustainability'

4.1 The Trustee is required by law to act in the best interests of the members of Rest when exercising its duties and powers. The Trustee must not favour the interests of one group of members over another. Rather, the Trustee acts in the best interests of beneficiaries as a whole, and must act impartially between different groups of members.

4.2 The Trustee also has a duty to promote the financial interests of Rest members who are invested in its MySuper investment option. This duty is in addition to the more general duty to act in the best interests of Rest members as a whole.

4.3 Given the diverse membership of Rest and the Trustee's duty to act impartially between different groups of members, the Trustee believes that its duty requires it to focus on growing the retirement savings of its members.

4.4 The Trustee is focused on delivering the Fund's stated investment objectives at a level of risk considered appropriate for the benefit of members and their beneficiaries. The Trustee will invest in strategies and appoint investment managers that are considered by the Trustee to be consistent with Rest's objectives as a long-term investor on behalf of its members.

4.5 The Trustee recognises the importance of making, and ensuring that the Fund's investment managers make, investment decisions primarily with regard to targeted financial returns, risks, and diversification benefits to the Fund as a whole.

4.6 However, the Trustee acknowledges that investment managers that do not take account of sustainability risks in their decision making process may have a detrimental impact on the Fund's long-term investment performance. The Trustee believes that investment managers that identify and effectively manage risks, including sustainability risks, are likely to produce superior long-term financial performance. As such, the Trustee considers it appropriate for its investment managers to focus on investments that represent sustainable value and understand any aspect of an investment that could impinge on its intrinsic value.

4.7 Although monitoring sustainability risks does not necessarily prevent poor investment performance, it can reduce risk and thereby potentially protect and enhance members' wealth in the long-term.

4.8 The Trustee's beliefs in respect to climate change is stated in the Climate Change Policy that sets out the principles and practices that the Trustee will follow when assessing and monitoring the impact of climate change on members assets. It also states how the Trustee considers climate change risks and opportunities in its investment decision making processes through its engagement with Rest's Investment Managers and Investment Adviser in addition to membership of climate change related organisation(s).

4.9 There are circumstances where the Trustee determines that certain types of investments should be excluded by its investment managers. The Trustee may make this determination based on a number of grounds, including labour standards, or environmental, social and governance factors or ethical considerations. Rest has decided that it will not, and that its investment managers will not on its behalf, invest in companies directly involved in the manufacture of tobacco, cluster bombs, landmines, uranium weapons and chemical and biological weapons or their key parts. For indirect holdings where the Trustee does not maintain the same degree of control, such as derivatives, pooled united trusts and structures like collateralised debt securities or exchange traded funds, these

exclusions may not apply to these investments. We expect our investment managers to adhere to our exclusions and we will monitor their actions.

5. Incorporating Sustainability into the Investment Process

5.1 Role of the Trustee

The Trustee's primary role from an investment perspective is to deliver the stated investment return objectives of each investment option to members for a level of risk considered appropriate by taking advantage of opportunities and managing identified risk factors.

At the Fund level, decisions relating to sustainability matters and how (or the extent to which) these matters should be incorporated into investment processes are left to those best placed to make such decisions. In most circumstances this is the Fund's investment managers though for some asset classes the Fund retains investment discretion. There may be circumstances where the Trustee determines that certain investments should be excluded from the Fund and, in these circumstances, the Trustee will provide a specific direction to its investment managers and exercise its investment discretion consistently with that.

The Trustee applies the following general methodology with respect to ensuring sustainability issues are taken into account for each of the Fund's investments:

5.1.1 *The Trustee sets the policy and defines the role of underlying service providers*

The Trustee sets policy as part of its function of administering the Trust Deed of the Fund in the best interests of beneficiaries. This includes the approval and implementation of the investment and related policies of the Fund. The Trustee also defines the Fund's governance structure, including the roles and expectations of its investment service providers (i.e. the Fund's Investment Adviser and the Fund's investment managers).

As part of this, the Trustee expects that its investment service providers adequately address investment related sustainability matters that are likely to have a material impact on the financial performance or risk of an investment on behalf of members.

5.1.2 *The Trustee has a duty to monitor*

The Trustee has a role in monitoring investment performance and how investment managers incorporate sustainability related matters into their investment process. This is outlined in Section 6.

The Trustee acknowledges that the extent to which sustainability considerations are able to be taken into account by its investment service providers is partially dependent on the nature and structure of the relevant investment.

5.2 Role of the Investment Adviser

Rest's Investment Adviser provides advice to the Fund in relation to investments and related matters.

The Trustee expects that the Investment Adviser will from time to time enter into dialogue with Rest's existing investment managers in relation to (but not limited to) the following:

- (a) policies adopted in relation to sustainability matters and proxy voting;
- (b) how sustainability factors are incorporated into the investment manager's process for assessing the financial attractiveness and risks of investments;
- (c) the extent to which industry guidelines have been adopted (ASX, ACSI, etc.) in relation to sustainability matters;
- (d) how the investment managers engage with asset managers in relation to sustainability matters;
- (e) voting practices; and

(f) how the investment managers are representing the members' best interests.

With new investment managers, the Trustee expects that its Investment Adviser will include and consider sustainability issues as part of the RFP process.

5.3 Role of the Investment Managers

The role of the investment managers is to manage investments on behalf of the Fund in accordance with agreed guidelines (e.g. investment mandate agreements or investment product documentation).

The Fund's investments are managed by selected external investment managers as well as the Fund's wholly owned subsidiary, Super Investment Management Pty Limited ('SIM'). All managers are appointed by the Trustee to manage the Fund's investments on behalf of the Fund in accordance with agreed guidelines (e.g. investment mandate agreements or investment product documentation).

The Trustee recognises the importance of investment managers making investment decisions primarily with regard to expected financial returns, risks, and diversification. The Trustee also recognises the potential impact of sustainability factors on the long-term performance of the Fund's investments. In this regard, the Fund's policy is:

- to encourage investment managers to enter into dialogue or actively engage with underlying asset managers to ensure that sustainability matters are being appropriately identified and managed;
- for the investment managers to vote on all corporate actions;
- for the Trustee and/or investment managers to engage with co-investors on particular issues where practical and appropriate to do so; and
- to seek representation on the Board or Investor Representative Committees for direct unlisted investments which comprise greater than 0.5% of Rest's total assets and where Rest is entitled to appoint a director or representative.

The Trustee expects that its investment managers will have in place, processes to identify material sustainability risks of investments and that those risks are incorporated into the assessment of each investment. The Trustee also expects that its investment managers will undertake engagement activities with asset managers in relation to sustainability matters where practical and appropriate to do so.

As noted above, the Trustee may direct investment managers to not make certain investments.

Proxy voting and corporate actions

The Trustee recognises that engagement and participation in corporate actions is a reasonable and practical way for the Trustee to, amongst other things, exert some influence in relation to how sustainability issues are considered and implemented by investment managers.

Investment managers are expected to exercise all corporate actions and/or voting rights unless the Trustee makes a direction, in which case, the investment manager must exercise the corporate action or voting right in accordance with the Trustee's direction. The Trustee maintains the ability to direct investment managers in relation to the exercise of proxy voting and corporate actions but will only do so where it is deemed to be in the best interest of Rest's members.

The Trustee notes that equity investment managers may have a greater ability than debt managers in exerting influence over asset managers in relation to sustainability issues via the process of proxy voting.

Matters to be referred to the Board - conflicts

While the Trustee reserves the right to direct an investment manager in relation to how to vote in respect of a particular voting right, the Trustee will generally only exercise this right with regards to Australian domiciled retail stocks or retail stocks where the company is operating in Australia, and will only exercise this right if the matter has been expressly considered and resolved by the Board.

This policy of requiring express consideration and direction by the Board if the right to direct is exercised by the Trustee, has been adopted having regard to the whole of the circumstances of the Fund and is designed to support the prudential management of the Fund's investment strategy and manage the risk of conflicts arising amongst the directors of the Trustee, given that a majority of directors of the Trustee are nominated by parties directly involved in the retail industry in Australia. Any resolution by the Board will take into account whether any director has a conflict in the particular circumstances and, if so, the consequences of the conflict. For this reason, the internal investment manager (Super Investment Management) that has been appointed to manage a portion of the Australian equity portfolio of the Fund will not exercise any voting rights with regard to Australian domiciled retail stocks or retail stocks where the company is operating in Australia unless the Board has expressly considered and resolved to direct SIM to do so. For similar reasons, the Trustee has a policy of ordinarily not directly owning shopping centre properties in Australia.

5.3.1 *Listed Investments*

This category of investments includes direct holdings in listed securities through a mandate, and indirect holdings in listed securities through an interposed entity, such as a pooled trust.

The Trustee recognises that where investments are made through pooled investment vehicles, the trustee (the 'manager') of that investment vehicle has the legal capacity to exercise votes and any other rights attached to investments that form part of that portfolio. The Trustee and its Investment Adviser can provide input to the investment manager in relation to sustainability matters and related corporate actions where appropriate, but the Trustee does not have the authority to vote on corporate actions for investments made through a pooled vehicle.

In the case of investments made directly through a mandate, the Trustee has specified in its mandate agreements with those investment managers that the investment manager may exercise votes attached to investments that form part of the mandate, unless otherwise directed by the Trustee.

Further, pursuant to the terms of the respective mandate agreements, the Trustee may issue a direction to the investment manager requiring the investment manager to act in accordance with the Trustee's instructions in relation to the exercise of voting and/or corporate actions. However, the Trustee will only do so when it is deemed to be in the best interest of Rest's members.

5.3.2 *Unlisted Investments*

This category of investments includes holdings in unlisted investments (such as property and infrastructure) either directly through a mandate, or indirectly through an interposed entity, such as a pooled trust.

Where investments are made through pooled investment vehicles, the Trustee's rights as an investor will vary depending on the product documentation (constitution, trust deed, etc). It is the Trustee's policy to vote on all corporate actions associated with such investments and undertake such lobbying with other unitholders where the Trustee considers this is appropriate and in the best interests of members of Rest to do so.

The Trustee recognises that, where investments are made directly into physical assets, the Trustee has a range of tools at its disposal in influencing outcomes and corporate behaviour. Depending on the size of Rest's interest in a particular investment, this could include but is not limited to: securing a board position to represent Rest and/or other likeminded unitholders, negative control and veto rights for certain events (e.g. sale of the asset and senior management appointments), investing alongside other investors whose portfolios are managed by the same manager, and lobbying other investors.

The Trustee also has a policy titled "Investee Boards' Policy" which addresses a range of matters in relation to monitoring of Direct Assets, including situations where the Trustee considers it appropriate to seek appointments to Boards and/or Investor Representative Committees, the appointment process of such appointees, and the role of such appointees.

6. Monitoring

- 6.1 In relation to listed Australian equity investments (held directly through a mandate), the Trustee monitors the voting activities of its investment managers. Instances of votes 'against' management, 'abstained' votes and votes not cast, together with an explanation are reported to Rest's Investment Committee on a semi-annual basis.
- 6.2 In relation to indirect holdings in unlisted property or infrastructure investments, the Trustee takes advice from management and/or its Investment Adviser in relation to how to respond to corporate actions. The results of voting in relation to such matters are reported to the Trustee by either the investment manager and/or the Fund's Investment Adviser. Item 6.2 excludes circumstances where an investment manager has received a direction from the Trustee instructing the investment manager how to respond to a corporate action.
- 6.3 In relation to assets where the Trustee has appointed a nominee to a board or an investor representative committee, there is additional oversight arrangements as set out in the Investee Boards' Policy.
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- 6.4 Annually, the Trustee will request the following from each of the Fund's investment managers:
- a) a copy of their current proxy voting policy and any guidelines in relation to corporate actions;
 - b) a copy of their current policies with respect to embedding "sustainability" into the investment process; and
 - c) a report on current sustainability issues being considered.
- 6.5 From time to time, the Trustee may request that investment managers provide a report on how votes have been exercised in relation to a specific matter, the outcomes of engagement activities, other matters covered by this Policy, or any other matter of a sustainability nature. Where appropriate, the Rest Investment Team will report findings to the Rest Investment Committee.
- 6.6 In order to continually build upon the Trustee's knowledge and expertise with regard to investment related sustainability issues, the Trustee will undertake the following activities:
- a. Rest Investment Team will interact with the following organisations in relation to investment related sustainability issues:
 - the Fund's appointed investment managers;
 - relevant staff of other superannuation funds;
 - the Fund's investment adviser; and
 - ESG industry service providers.
 - b. Rest will review membership with relevant industry bodies annually and engage in relevant activities when practical, or investigate services provided by relevant industry bodies.

7. Review

The Trustee will generally undertake a formal review of this policy annually and more frequently where required to take into account new and/or changing legislative, regulatory or other relevant requirements.