STATE SUPER
SAS Trustee Corporation

Responsible Investment Policy

Version 4

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Responsible Investment Policy

Policy Control Information

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Version	**Prepared By**	**Reviewed By**	**Approved By**
Version 4 (Responsible Investment Policy)	CIO	Board Investment Committee	State Super Board 2019
Version 3 (ESG Policy)	Head of Strategy/ Deputy CIO	GM, Investments	State Super Board December 2013
Version 2 (ESG Policy)	Investment Specialist	GM, Investments	State Super Board July 2011
Version 1 (ESG Policy)	Investment Specialist	GM, Investments	State Super Board December 2009

1. Introduction

SAS Trustee Corporation (State Super) was continued on 1 July 1996 under the Superannuation Act 1996 (SA Act) as the Trustee of the following four closed NSW superannuation schemes (the State Super schemes):

- State Authorities Superannuation Scheme;
- State Superannuation Scheme;
- Police Superannuation Scheme; and
- State Authorities Non-contributory Superannuation Scheme.

The assets of the State Super schemes are amalgamated into the **'Pooled Fund'** by the SA Act. State Super's governing rules are contained in the SA Act which sets down the functions, duties, powers and obligations of State Super. State Super's principal functions are to:

- administer the State Super schemes;
- invest and manage the Pooled Fund in which the State Super schemes invest;
- provide for the custody of the assets and securities of the Pooled Fund;
- ensure State Super scheme benefits are properly paid; and
- determine disputes under the State Super schemes.

In exercising these functions, State Super has regard to, principally; the Heads of Government Agreement, commencing 1 July 1996, relating to the exemption of certain State public sector superannuation schemes from the *Superannuation Industry (Supervision) Act 1993* of the Commonwealth, the interests of its members entitled to receive benefits under the State Super schemes and the future liabilities of the State Super schemes. State Super is also required to comply with relevant NSW regulatory requirements.

Within the Pooled Fund, the **'Defined benefit'**, **'Defined contribution'** and **'Universities'** portfolios have different investment structures, exposures, liquidity requirements and end dates, however State Super approaches management of the Pooled Fund as a long-term investor, with an objective to achieve a high level of return over the respective timeframe to maximise value for members to meet the liabilities as they fall due.

State Super is required to identify and manage all material investment risks (refer Section 5 of this Policy). State Super's Investment Beliefs recognise that "environmental, social and governance (**'ESG'**) factors may materially impact investment risk and returns, particularly over the long term".

State Super is committed to ensuring that sustainable long-term investment returns are generated. Economic prosperity, community wellbeing and environmental concerns are considered throughout the investment process.

State Super is therefore committed to the integration of responsible investment (RI) and ESG factors in the selection, retaining and realising of investments, and the adoption of an active ownership approach across the pooled fund. State Super is committed to continuously improving RI performance in line with the parameters contained within this Policy.

State Super's Risk Management Framework sets out how the trustee ascertains and manages the material risks to investments.

2. Purpose and objective

This document sets out State Super's policy on how it approaches and manages ESG risks within its investment management processes across the Pooled Fund. Under this Policy, State Super is committed to:

- integrating ESG factors into the investment process;
- being an active asset owner on behalf of its members;
- allowing for exclusions across the Pooled Fund; and
- abiding by requirements of relevant legislation, ministerials and industry codes.

3. Application

This Policy applies to all funds under management across the entire Pooled Fund.

4. Governance

This Policy should be read in conjunction with the State Super Investment Governance Framework and the Investment Policy Statement and operates under the Fund's Risk Management Framework.

The Executive[1] monitors State Super's RI activities including ESG risk exposure and management with regular reporting provided to the Board Investment Committee (BIC).

The Executive oversees the RI program with the Chief Investment Officer (CIO) being accountable for the development, implementation and performance reporting of the State Super RI program.

State Super facilitates access to relevant continuing education for Board members and staff and encourages participation in industry bodies and forums.

State Super's approach to avoiding, identifying and managing any conflicts of duties or interests related to responsible investment activities are outlined in the State Super Conflicts Management Policy.

[1] Executive includes reference to the Management Investment Committee.

5. Regulatory requirements

A key duty of State Super as a trustee is to implement and manage a risk management framework that:

- systematically identifies the risks in all aspects of its operations that can affect achieving its objectives; and
- enables informed decisions about these risks.

State Super is required under its legislation, the *Superannuation Administration Act 1996 (NSW),* to develop and implement an investment strategy that among other things, has regard to "*the risk involved in making, holding and realising, and the likely return from, the investments having regard to the schemes' objectives and their cash flow requirements"*.

The Heads of Government Agreement 2015 (HOGA) requires that State Super will, to the best of its endeavours, conform to the requirement to document its identification and assessment of the relevant risks including investment risk. The documentation should include statements as to how State Super plans to implement processes to manage and monitor their risks.

Industry codes

State Super is a signatory to the Principles for Responsible Investment (PRI) and endorses the Australian Council for Superannuation Investors (ACSI) Governance Guidelines. State Super is committed to integrating the principles of these industry codes and guidelines into its investment approach and operations. Details are provided in Appendix 1.

6. Environmental, social and governance risk considerations

State Super has identified that the failure to consider or mitigate ESG issues is a material risk. ESG issues that may be considered by State Super include:

Environmental	Social	Governance
Climate change	Human rights	Executive pay
Resource scarcity & efficiency	Labour standards	Bribery & corruption
Waste & pollution	Population growth & demographics	Political lobbying & donations
Deforestation	Supply chain management	Board diversity & structure
Food security & sustainable agriculture	Health & safety	Taxation practices
Biodiversity	Stakeholder engagement & communities	Cyber security

State Super is committed to sourcing ESG research from a range of specialist research providers, consultants, investment brokers and non-government organisations. State Super acknowledges that ESG issues can sometimes be complex and ambiguous, meaning that measurement of these and associated outcomes may differ across the Pooled Fund.

Climate change

State Super acknowledges climate change presents significant long-term investment risks.

State Super endorses the **'Paris Agreement'** and acknowledges the principles of a **'Just Transition'** to a low carbon economy.

State Super is committed to effectively integrating climate change risks and opportunities into its investment processes across the Pooled Fund, and expects its investment managers and advisors to integrate these throughout their investment process. State Super seeks to have in place appropriate investment processes to support effective integration.

7. Responsible investment approach

The following section outlines State Super's approach to implementing RI across the Pooled Fund.

7.1 ESG integration

State Super is committed to promoting the integration of material ESG issues into investment analysis and decision-making in addition to active stewardship practices by its external fund managers and service providers.

7.1.1 Investment Strategy

State Super will consider the potential impact of ESG factors in determining its investment strategy and in setting its investment risk appetite and risk tolerances.

7.1.2 Manager selection, appointment and monitoring

Manager selection

State Super will invest through external fund managers. Fund managers' approaches to RI are assessed and weighted in the selection process. State Super will assess the ESG capabilities of the portfolio managers and their capacity to integrate these into investment decisions.

For individual mandates, State Super recognises that:

- comparing the performance of ESG aligned or thematic mandates with the policy benchmark is not always appropriate as the portfolio may produce a high tracking error. The mandate will be monitored against the investment objective specified in the investment schedule; and
- the ability to effectively integrate ESG and stewardship activities varies with the managers' investment processes (e.g. quantitative vs fundamental strategies in listed equities).

For investments in passive mandates or commingled trusts, State Super will consider funds that take ESG factors into account (e.g. through the use of ESG optimised indices).

Manager appointment

State Super includes annual RI reporting requirements in its investment management agreements (IMAs) entered into under this Policy.

Manager monitoring

State Super or its advisors undertake regular engagement meetings with fund managers to encourage further integration of material ESG factors into the investment process and to review progress on ESG integration and stewardship activities. Fund manager performance on RI will be monitored and formally reviewed in conjunction with broader asset class reviews.

7.2 Active ownership

State Super is a long-term owner of companies and assets and has a strong interest to enhance long term value by promoting sustainable value creation in the companies in which it invests. State Super believes that companies that effectively manage ESG risks, impacts and opportunities are likely to be more financially sustainable, which in turn positions them to generate stronger returns in the long term. Active ownership therefore benefits companies and investors as well as State Super members and the economy more broadly. For State Super, active ownership activities include company engagement, proxy voting and policy advocacy.

7.2.1 Company engagement

State Super recognises the importance of actively engaging with companies to ensure that they are managing material ESG issues appropriately and performance is maximised over the long term. State Super intends to assess ESG issues across its portfolio and identify priority themes to focus engagement efforts on. Engagement activities with investee companies will be prioritised according to the materiality, severity and perceived risk associated with the issue.

Listed companies

State Super employs external service providers to undertake engagement with listed companies on its behalf. Details of these are provided in Appendix 1.

State Super’s engagement service providers (refer Appendix 1) develop annual plans that outline the key ESG issues, sectors and companies they will focus their engagement and research efforts on. State Super provides input and approval for these plans through participation in their relevant advisory bodies.

State Super’s engagement service providers are expected to provide regular reports on upcoming engagements and recent engagements undertaken in order to establish the effectiveness of the engagement.

State Super representatives may participate in engagement service provider led engagement activities from time to time. Engagement mechanisms for listed companies may include, but are not limited to, writing letters to management or the board (or co-signing collaborative letters), meetings, telephone calls, site visits, voting and submitting resolutions at company annual general meetings.

State Super also expects its external fund managers to engage with companies on a regular basis to ensure ESG issues are being appropriately managed and factored into investment decisions (if applicable to investment approach). A requirement to include a summary of company engagement activities in fund reports is included in all applicable IMAs entered into under this Policy.

If there is a serious or material ESG issue, State Super expects to work with its external fund managers to undertake engagement with companies to ensure the issue is being effectively managed.

Directly held unlisted assets

State Super will work with its external fund and asset managers to engage with the management of its directly held, unlisted assets to act on any identified ESG risks and opportunities. Engagement mechanisms may include using our position on the board, voting rights, site visits and dialogue with asset managers and other investors.

Other unlisted assets

State Super will work with external fund managers of unlisted assets to engage with and encourage relevant stakeholders to act on any identified ESG risks and opportunities. Engagement mechanisms for unlisted assets may include, but are not limited to, writing letters to issuers (or co-signing collaborative letters), meetings, telephone calls and site visits

7.2.2 Proxy voting

State Super recognises the value and importance of the right to vote that attaches to share ownership, particularly as it could affect the value of an investment. State Super is committed to voting at 100% of company meetings across eligible holdings.

Commingled trusts and fund of funds

Proxy voting activities for commingled trusts and fund of funds in the Pooled Fund (with the DB portfolio managed by TCorp regarded as a fund of funds for this purpose) are delegated to the relevant fund manager. For these investments, the fund manager has full discretion for determining vote decisions, however they are expected to vote at 100% of company meetings across all relevant holdings. State Super will engage with fund managers for commingled trusts and fund of funds to encourage the use of the ACSI Governance Guidelines and adoption of ESG aligned voting policies. State Super expects fund managers for commingled trusts and fund of funds to provide detailed bi-annual voting activity reports.

Individual mandates

State Super employs external proxy voting service providers and advisors to undertake its proxy voting activities for all individual mandates in the DC portfolio. Details of these service providers are provided in Appendix 1

State Super retains the right to intervene with voting to ensure that any material portfolio risk is appropriately managed. Where State Super identifies a material holding or sensitive issue, it may seek to override the voting recommendation provided by the external proxy voting service provider.

A holding is deemed to be material for the DC portfolio when it:

- falls in the top twenty largest holdings held by State Super in the DC portfolio (Australian and international portfolios will be viewed as separate portfolios in this instance); or

- represents over 4% of ownership of a company's market capitalisation; or
- is more than 1% overweight compared to the relevant benchmark weight of the company.

An issue is deemed to be sensitive when it:

- covers a major financial transaction; or
- receives significant media attention; or
- covers an environmental, social or governance related topic that State Super is actively engaging on (through its external engagement partners); or
- is deemed to be of importance to State Super or its stakeholders.

Where a vote is identified as being material or sensitive, State Super will consult appropriately to determine its voting position.

If State Super determines to vote against company management recommendations, it will communicate this to the company at the appropriate time.

Shareholder resolutions

State Super may co-file resolutions for its Australian and international holdings if it is believed that a shareholder resolution is required to further engagement with investee companies on significant long-term ESG issues. Co-filing will only be considered following extensive engagement with the company, in addition to dialogue with engagement service providers, other institutional investors and any relevant stakeholders.

Securities lending

State Super conducts a securities lending program through the Fund's Custodian. The securities lending program is operated over the Fund's domestic and international equities and fixed income securities. State Super, via the contract with the Custodian, reserves the right to recall relevant securities at any time to exercise its voting rights as a shareholder.

7.3 Advocacy

State Super contributes to the development of submissions on policy, regulation and standard setting to government and regulators through its involvement with the PRI, ACSI, Responsible Investment Association Australasia and the Investor Group on Climate Change. State Super may also provide support for action on ESG Issues through co-signing investor statements or joint letters

7.4 Collaboration

State Super acknowledges that collaboration with industry peers can enhance its understanding of, and influence on, ESG issues through the pooling of resources and sharing of information.

State Super is an active member of various industry collaborative bodies, as outlined in Appendix 1.

State Super is committed to working effectively with TCorp as its Master Investment Manager on responsible investment activities, including partnering on collaborative initiatives and pursuing cost efficiencies for RI related products and services wherever practical.

7.5 Exclusions

State Super may consider excluding certain activities or stocks from the portfolio if an investment/s could:

- have a significant negative impact on long term returns;
- have a significant negative impact on the Fund's relationship with members and other stakeholders;
- contravene international treaties and conventions; or
- where comprehensive company engagement has been unsuccessful.

The State Super Board will, after considering these factors, determine whether to exclude specific activities or companies. Current exclusions for the State Super Pooled Fund are outlined in Appendix 2.

7.6 Positive and impact investments

The UN **"Sustainable Development Goals"** set out a framework for addressing global socioeconomic and environmental issues. Positive and impact investments look to address these broad scale challenges. A positive investment is one that has a positive impact on society or the environment. An impact investment takes this one step further and quantifies these positive impacts through clear investment structures and reporting frameworks. State Super may consider and give preference to positive and impact investments that have competitive risk and return characteristics.

8. Asset consultants

State Super engages asset consultants to provide investment advisory services. State Super requires its asset consultants to consider RI factors in their approach to assessing, recommending and monitoring strategic asset allocations, mandate selection, benchmarks and external fund managers for the Fund.

9. Stakeholder engagement

State Super is committed to engaging its stakeholders in productive dialogue on responsible investment.

State Super is committed to communicating its approach to Responsible Investing to all stakeholders.

10. Monitoring and reporting

State Super will receive at least quarterly updates on responsible investment issues and ESG performance.

11. Review

The Executive will ensure this Policy is reviewed triennially or more frequently as required and approved by the State Super Board. Reviews will cover changes in compliance requirements, including legislation, regulations and industry standards as they arise. The results of the review will be reported to the Board.

12. Definitions

The following terms have the following meanings:

(a) **"ACSI"** means the Australian Council for Superannuation Investors.

(b) **"Active Ownership"** means the use of the rights and position of ownership to influence the activities or behaviour of investee companies. Active ownership can be applied differently in each asset class. For listed equities, it includes engagement and voting activities.

(c) **"Custodian"** means a person (other than the Trustee) who, under a contract with the Trustee or an investment manager, performs custodial functions in relation to the Fund's assets.

(d) **"Defined benefit"** means the investments in the Pooled Fund that have been identified as being assets supporting the NSW Government's defined benefit pension liabilities.

(e) **"Defined contribution"** means the investment options in the Pooled Fund that have been identified as being assets supporting the accumulation portions.

(f) **"ESG"** means environmental, social and governance.

(g) **"the Fund"** means the State Super pooled fund assets.

(h) **"Governance Guidelines"** means Australian Council for Superannuation Governance Guidelines.

(i) **"Individual mandate"** means an investment mandate that is governed by an Investment Management Agreement.

(j) **"Investment consultant"** means a corporation appointed to provide investment advice to State Super.

(k) **"Investment manager"** means a corporation appointed to invest on behalf of State Super.

(l) **"Just transition"** means the creation of decent work, quality of jobs and community renewal in the transition to a low carbon and climate resilient economy.

(m) **"MIC"** means the State Super Management Investment Committee.

(n) "**Pooled fund**" means the State Super funds amalgamated as one fund under the *Superannuation Administration Act 1991* (NSW) and continued to be amalgamated under the *Superannuation Administration Act 1996* (NSW). This includes the defined benefit, defined contribution and universities portfolios.

(o) **"PRI"** means the Principles for Responsible Investment.

(p) **"Proxy voting"** means the entitlement to vote on various issues proposed by a company and its shareholders at a listed company's annual &/or general meeting. If a shareholder can't attend a meeting in person, they can elect to vote using a 'proxy' ballot.

(q) **“Sustainable Development Goals”** means the UN Sustainable Development Goals, a universal set of 17 goals adopted by 193 countries that support the 2030 Agenda for Sustainable Development.

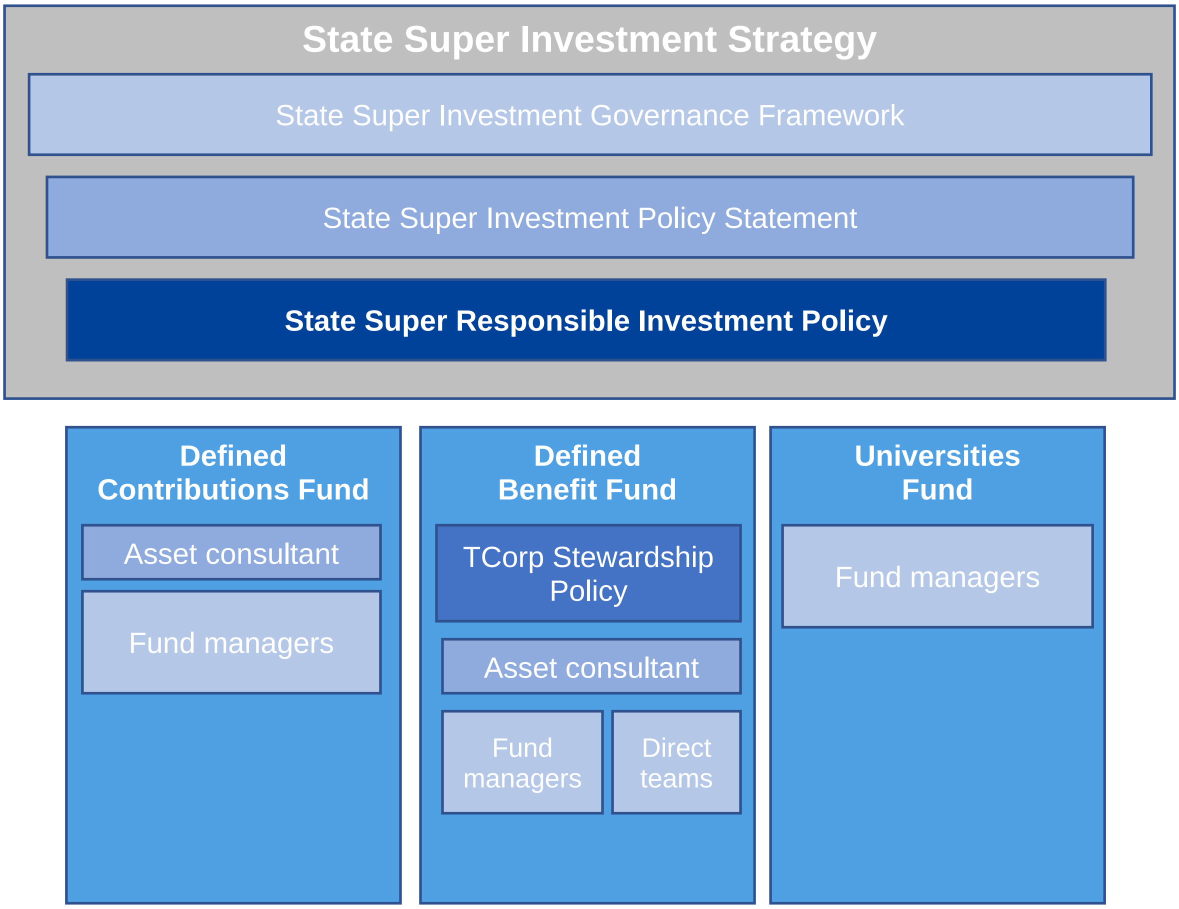
(r) **“TCorp”** means the NSW Treasury Corporation.

(s) “**Trustee”** means SAS Trustee Corporation (State Super) or State Super.

(t) “**Universities**” means the assets that have been identified as being assets supporting the University benefits.

Appendix 1

State Super Responsible Investment Governance Structure



Outsourced service providers

Asset consulting

State Super engages external asset consultants to provide investment consulting services for the Pooled Fund and the DC portfolio.

ESG research providers

State Super engages ACSI and MSCI ESG Research to provide ESG research services. State Super also receives ESG research from other providers.

Listed company engagement

State Super engages ACSI to undertake engagement with ASX300 companies on its behalf.

Proxy voting

State Super engages CGI Glass Lewis and ACSI to undertake proxy voting on its behalf for the DC portfolio. CGI Glass Lewis implement ACSI voting recommendations for ASX300 and are guided by the ACSI International Governance Guidelines for all international company meetings. Voting for Australian companies that fall outside the ASX300 is undertaken using the CGI Glass Lewis recommendations.

Industry codes & associations

Principles for Responsible Investment

STC has been a signatory to the Principles for Responsible Investment[2] since 2011. The PRI provides the leading framework globally for incorporating ESG issues into investment practice. State Super is committed to continuously improving the integration of the six principles into its investment approach and operations, which are stated as follows for each organisation to attest to:

1. *We will incorporate ESG issues into investment analysis and decision-making processes.*
2. *We will be active owners and incorporate ESG issues into our ownership policies and practices.*
3. *We will seek appropriate disclosure on ESG issues by the entities in which we invest.*
4. *We will promote acceptance and implementation of the Principles within the industry.*
5. *We will work together to enhance our effectiveness in implementing the Principles.*
6. *We will report on our activities and progress towards implementing the Principles.*

ACSI Governance Guidelines

The ACSI Governance Guidelines[3] summarises investor expectations about the governance practices of the companies in which they invest. The Guidelines are used to frame engagements with companies on how they are managing environmental, social and governance issues. As a member of ACSI, State Super supports the Guidelines and engages on reviewing and updating them on a regular basis.

Industry associations

In addition to the PRI, State Super is an active member of the following industry collaborative bodies:

- Australian Council for Superannuation Investors (ACSI)
- Investor Group on Climate Change (IGCC)
- Responsible Investment Association Australasia (RIAA); and
- International Corporate Governance Network (ICGN).

ESG standards

When assessing ESG issues across the portfolio, State Super is guided by the principles of the United Nations Global Compact, which are derived from the Universal Declaration of Human Rights, the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

[2] PRI, 2019, 'What are the Principles for Responsible Investment?'.
[3] ACSI, 2017, 'ACSI Governance Guidelines'.

Appendix 2

State Super Exclusions

State Super has determined that it will not invest in companies that are directly involved in the manufacture or production of controversial weapons and tobacco products. These exclusions apply to all asset classes across the Pooled Fund.

The companies covered by these exclusions are determined as follows:

- Controversial weapons – companies identified by MSCI ESG Research as involved in[4]:
    - Cluster Bombs – including the production of cluster bombs and munitions, or the essential components of these products.
    - Landmines – including the production of anti-personnel landmines, anti-vehicle landmines, or the essential components of these products.
    - Depleted Uranium Weapons – including the production of depleted uranium weapons and armour.
    - Chemical and Biological Weapons – including the production of chemical and biological weapons, or the essential components of these products.
    - Blinding Laser Weapons – including the production of weapons utilising laser technology to cause permanent blindness.
    - Non-Detectable Fragments – including the production of weapons that use non-detectable fragments to inflict injury.
    - Incendiary Weapons (White Phosphorus) – including the production of weapons using white phosphorus.
- Tobacco – companies classified under GICS code 302030 as a ‘tobacco producer’.

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[4] Involvement criteria:

- Producers of the weapons
- Producers of key components of the weapons (only applies to cluster bombs, landmines, depleted uranium weapons as well as chemical and biological weapons)
- Ownership of 20% or more of a weapons or components producer. The minimum limit is raised to 50% for financial companies having an ownership in a company that manufactures controversial weapons or key components of controversial weapons.
- Owned 50% or more by a company involved in weapons or components production
- Revenue limits = any identifiable revenues i.e. a zero tolerance applies