

# Australian Retirement Trust – Sustainable Investment Policy

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## Overview

This document is the Sustainable Investment Policy (“SI Policy”) for the Australian Retirement Trust (ABN 60 905 115 063) (“the Fund”).

The Fund’s mission is to improve retirement outcomes for members to and through retirement. In delivering these outcomes, the Fund seeks to maximise investment outcomes while being cognisant of risks, and integral to this is the belief that “Sustainable investing leads to superior outcomes”.

Explicit is the belief that to invest sustainably is to act in members’ best financial interests.

This Policy defines the sustainable investment (SI) activities including SI integration, active ownership, and reporting. In addition, this Policy provides members with information on the Fund’s activities within this investment function. It should be read in conjunction with the Australian Retirement Trust Climate Change Policy, which relates to that specific SI issue.

## Key principles

Effective stewardship of the retirement savings of members requires that the Fund integrate environmental, social and governance (ESG) considerations into its investment process at all levels. Managing risks emanating from ESG factors is consistent with pursuing the best financial interests of members. So too is pursuing opportunities that emerge from ESG considerations.

The Sustainable Investment Policy contains detail on the beliefs, approaches to management, reporting and products that constitute the Fund’s integration of ESG considerations.

## 1. Scope

The Board's Policy sets out how Australian Retirement Trust integrates sustainable investment (SI) practices into its broader investment management framework to manage ESG risks.

It does so in the belief that:

*The application of sustainable investment practices, encompassing long-term, finance-driven strategies that integrate ESG factors in investment arrangements, will enhance the probability of meeting investment objectives.*

This SI Policy and the program it creates should be viewed as assessing ESG factors as both risks and potential opportunities, with both enhancing the probability of meeting investment objectives.

This Policy has application to all Australian Retirement Trust investments, noting, however, that the QSuper Socially Responsible Option and the *Super Savings* Socially Conscious Balanced Option remain separate, stand-alone SI options with specific criteria outlined in their relevant Product Disclosure Statements.

Although this policy is applied to all products, it may not extend to all asset classes or activity – for example, cash, currency, or rebalancing.

The Board's positioning on climate change is outlined in a separate Policy.

## 2. Governance

The Trustee is at all times responsible for the Fund's investments. The Trustee has delegated primary responsibility for co-ordinating the Fund's SI activities to Australian Retirement Trust's Chief Investment Officer (CIO) and primary oversight of the CIO to the Australian Retirement Trust Investment Committee. Other parties to the SI Policy include but are not confined to the following:

- Relevant Board sub-committees
- The internal SI team and the broader Australian Retirement Trust Investment team
- Investment managers engaged by the Fund
- Service providers and advisers to the Fund.

The over-arching Australian Retirement Trust Investment Delegations establish the Board as responsible for the establishment of the SI Policy's beliefs, governance, policy framework and program. The Sustainable Investment Delegations establish the Chief Investment Officer as having Board-delegated authority to implement portfolio and active ownership activity.

## 3. Beliefs

The Board has determined an investment belief to support its aim to improve retirement outcomes for members. In doing so, Australian Retirement Trust seeks to maximise investment outcomes while being cognisant of risks, and integral to this is the belief that:

“Sustainable investing leads to superior outcomes.”

The Trustee believes sustainable investment practice should form part of a robust investment management framework because:

- It is a component of the Trustee's fiduciary duty.
- It acknowledges Australian Retirement Trust as being a universal owner.
- ESG factors are a source of investment risks and opportunities that should be managed prudently.
- Effective integration of ESG considerations into the investment processes reflects a more encompassing approach to investment management.

- Active ownership (stewardship – voting, engagement, advocacy and supporting collaborations) plays a role in improving long-term, sustainable returns. The Trustee considers active ownership an important responsibility that assists in the delivery of investment objectives.

## 4. Policy

### a) Sustainable investment strategy

Australian Retirement Trust is a universal owner, as its investment outcomes are affected by not only the actions of the entities in which Australian Retirement Trust invests, but also the current and future states of economies, societies, government policies, and the physical environment more generally. Therefore, Australian Retirement Trust's SI activities extend from asset-specific issues to financial market stability and to addressing the externalities that may affect long-term investment performance.

### b) Prioritisation of ESG factors

The following criteria will be applied in the assessment and selection of ESG factors:

*Materiality* (relative to improving probabilities of achieving Fund objectives):

- Scale of issue across the Fund
- Gravity of issue
- Relevance to member profile (gender, age, geographical location, occupation)

*Able to be addressed effectively*

- Can Australian Retirement Trust manage it effectively through the portfolio or stewardship?
- How well is it already being managed by others (government, Australian Council of Superannuation Investors (ACSI), other funds, NGOs)

*Legal and fiduciary requirements*

- Consider fiduciary and stakeholder positioning
- Legislative and regulatory requirements.

This process will frame the application of Australian Retirement Trust's SI Policy, inform the provision of information to assist decision-making at both management and Board level, and support management of external stakeholders seeking to engage on specific issues.

### c) Portfolio integration

Australian Retirement Trust seeks to integrate the consideration of material ESG risks and opportunities into each investment decision it makes. Portfolio integration of ESG factors will be held to the establishment of an investment case.

Having been identified as a priority issue, the integration of ESG factors into asset portfolio arrangements will reflect the underlying arrangements that inform the management of those assets. For listed equities, this covers index, active, and internal bespoke index construction. For unlisted assets, this includes but is not limited to pooled funds, discretionary and non-discretionary mandates, and direct and co-investments.

### d) Exclusions

Also known as negative screening, exclusion is the ultimate sanction that can be taken. The Trustee may consider ethical issues when determining exclusions. In such cases, the Trustee may direct the fund to divest of companies that produce products that kill if used as intended or pose serious reputational or regulatory risks to the Fund, and where active ownership is unlikely to be successful in managing the issue. Exclusion typically prohibits the Fund from directly investing in specific entities or instruments.

Current approved exclusions of Australian Retirement Trust include:

- Tobacco exclusion

Australian Retirement Trust has excluded direct investments in tobacco producers from all Investment Management Agreements within its investment portfolio, based on a rationale that the tobacco industry is unsustainable over the long term. Tobacco products, when used as intended, risk seriously harming or killing the customer. Moreover, this harm has resulted in escalating regulatory action such as taxes, plain packaging, advertising restrictions and warning labels being adopted by an increasing number of countries. When combined with effective education initiatives, global smoking rates and therefore the economic viability of the industry will continue to erode.

- Cluster munitions and landmines exclusions

Australian Retirement Trust has excluded direct investments in companies that develop, produce, or otherwise acquire cluster munitions from all Investment Management Agreements within its investment portfolio. This decision follows the enactment of the Criminal Code Amendment (Cluster Munitions Prohibition) Bill and Australia's ratification of the Convention on Cluster Munitions. In addition, Australian Retirement Trust has excluded direct investments in companies that develop, produce, or otherwise acquire anti-personnel landmines from all Investment Management Agreements. Although investment in such companies is not explicitly prohibited under the Ottawa Convention (to which Australia is a party), we believe excluding these companies from the portfolio is in the spirit of the Convention.

- Modern slavery

Australian Retirement Trust will seek to identify those entities within its portfolio that have been found to have practices identified within modern slavery legislation and will minimise its exposure to these entities and report on its activities in accordance with the *Modern Slavery Act 2018*.

- Further application of exclusions

Exclusions may be applied where the underlying sector, asset, or security does not meet the Fund's requirements to prudently manage member outcomes, including investment risks and returns. From time to time, Australian Retirement Trust may accept excluded securities through in specie fund transfers. In such instances, Australian Retirement Trust will seek to divest the excluded securities in an efficient and cost-effective manner aligned with members' best interests, typically not exceeding 30 days.

## e) Active ownership

Australian Retirement Trust undertakes active ownership activities (voting, engagement, and advocacy) in the belief that they act to improve long-term sustainable returns for members.

### i. Proxy voting

Australian Retirement Trust recognises that as a shareholder of numerous companies listed on exchanges throughout the world, including the Australian Securities Exchange (ASX), it has a responsibility on behalf of its members to monitor and influence the quality of the governance discussion within the companies in which it has investments. The voting of shares represents one aspect of Australian Retirement Trust's involvement in the governance processes of these companies. In the event shares are on loan through the Securities Lending Program, Australian Retirement Trust will endeavour to have them recalled for the purpose of proxy voting.

### a. Proxy voting guidance

Remuneration (including but not limited to grants, remuneration reports, non-executive director fee pools, retirement benefit resolutions): Remuneration practices proposed by boards that motivate executives to achieve appropriate outcomes and are aligned with the Fund's investment horizon are likely to be supported.

Director elections: Directors standing for election that are additive to the competency, agility, and diversity of boards are likely to be supported. The intended structure of the board, and the skills and experience of the individual standing for election may be required to be further explained during engagement activities prior to the vote.

Corporate actions: We are likely to vote in line with underlying managers' recommendations on corporate actions so long as they are aligned with the best long-term interests of members.

Shareholder proposals: Following consideration of the views of relevant stakeholders, shareholder proposals will be considered on their merit.

Other: Other resolutions proposed are considered on a case-by-case basis as to whether they are in the best long-term interests of members.

On an ongoing basis, Australian Retirement Trust will assess its investment managers' proxy voting actions to ensure that they are properly discharging their share voting responsibilities. Australian Retirement Trust will annually assess its investment managers' proxy voting policies to ensure that their policies and philosophies are appropriate. Each six months, a proxy voting report will be publicly disclosed on the Australian Retirement Trust website.

### ii. Engagement

Australian Retirement Trust believes that engaging widely on ESG issues will improve behaviours, promote best practice, and lead to a better understanding of business and strategic decisions. Australian Retirement Trust's engagement program will involve both direct and collaborative activities.

Where practical, Australian Retirement Trust's engagement activities will build a stronger relationship between the Fund and its major investee companies. This will result in more successful, timely improvements in ESG activities and afford Australian Retirement Trust a deeper understanding of the nature and behaviour of the businesses in which it invests.

The aim of the engagement is to better understand an issue, exert influence on an entity, raise awareness of an issue or simply build a better understanding of strategy. Milestones may be set in relation to identified priority issues.

### iii. Advocacy

The active ownership activity with the potential for the broadest influence, advocacy involves seeking to influence law or policy to improve the legal and economic environment in which we invest, where it is in members' best interests to do so.

### iv. Collaborations

Australian Retirement Trust will form collaborations to assist its SI Policy where they are expected to be aligned and effective. The development of an issues-based stewardship program will enable Australian Retirement Trust to identify like-minded investor groups to inform and collaborate on stewardship activity.

Australian Retirement Trust will explore collaboration with other investors either informally or through other formal groups to advance specific active ownership objectives. Implementation of this policy will balance the reputational benefits and knowledge that potential collaboration brings to organisation while maintaining fiduciary and management control of the Fund's policy (in terms of both its development and evolution).

## 5. Reporting

Australian Retirement Trust will provide a report on its SI activities on a half-yearly basis to the Board and relevant internal stakeholders, including the Investment Committee.

Australian Retirement Trust will report to members, employers, and other external stakeholders on SI matters via its website on an annual basis. The SI report will summarise the initiatives and proxy voting activities undertaken by Australian Retirement Trust during that period. In addition, it will include climate risk reporting in line with the recommendations of the Taskforce for Climate-Related Financial Disclosures (TCFD).

## 6. Stand-alone investment options

Australian Retirement Trust offers its members two stand-alone socially responsible options. These are:

- The QSuper Socially Responsible Option, which is constructed to align with member preferences with an impact framework
- The Super Saving Socially Conscious Balanced Option, whose investments work towards building a more sustainable future.

Their specific criteria are outlined in their relevant Product Disclosure Statements.