Environmental, Social and Governance Policy (ESG)

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1. Purpose

This document sets out SAS Trustee Corporation’s (STC) approach to Environmental, Social and Governance (ESG) matters. One of STC’s Investment Beliefs is that improvements relating to ESG will enhance the long term performance of the Fund to the benefit of STC’s primary stakeholders, which are members and employer groups with the major stakeholder being the State of NSW.

A focus on ESG issues helps investors to:

1. Make better investment decisions in the long-term;
2. Facilitate better risk assessment and valuation of risk factors;
3. Contribute to better dialogue between companies and their investors on drivers of long-term value creation; and
4. Incentivise companies to improve their governance.

In considering how to engage on issues relating to ESG, STC will use the following framework to set priorities:

- **Principles and Policy** – assess to what extent an issue is supported by STC’s Investment Beliefs or other investment policies.

- **Materiality** – does the issue have the potential to impact portfolio risk or return?

- **Capacity** – does STC have the expertise and resources to influence an outcome?

- **Likelihood of success** – to what extent can STC influence an outcome or partner with other organisations to achieve an outcome?

STC is required by supporting legislation to exercise its delegated authority to invest through external managers. This means that in regard to ESG matters relating to specific investments, it engages with the responsible investment manager to implement and monitor downstream ESG behaviour through investment management agreements.

STC spends considerable time with its external managers to understand and monitor the managers’ ESG policies and understand where they are consistent with STC beliefs. In addition STC engages directly more broadly on ESG issues with other investors and interested parties.

To underscore its ESG commitment STC has signed up to the United Nations principles for Responsible Investment (UNPRI). It is also a member of a number of organisations such as ACSI, ICGN, IGCC, ESG Research and a signatory to the Carbon Disclosure Project.
2. Definitions

The following terms have the following meanings:

(a) ACSI refers to the Australian Council of Superannuation Investors;
(b) ICGN refers to the International Corporate Governance Network;
(c) IGCC refers to the Investor Group on Climate Change Australia/New Zealand;
(d) UNPRI refers to the United Nations Principles of Responsible Investing; and
(e) CGI refers to CGI Glass Lewis Pty Ltd.

3. UN Principles for Responsible Investment

3.1 The Six Principles

As a signatory to the UNPRI STC has committed to following its principles for responsible investment which are as follows:

1. Incorporate ESG issues into investment analysis and decision-making processes.
2. Be active owners and incorporate ESG issues into their ownership policies and practices.
3. Seek appropriate disclosure on ESG issues by the entities in which they invest.
4. Promote acceptance and implementation of the Principles within the investment industry.
5. Work together to enhance their effectiveness in implementing the Principles.

3.2 The Principles recommend engagement

The UN Principles suggest a policy of engagement with companies rather than screening or avoiding stocks based on ESG criteria (although this may be an appropriate approach for some investors). The Principles are generally designed for large investors that are highly diversified and have large stakes in companies, often making divestment or avoidance impractical. The decision to invest/divest is held by the managers appointed by STC although, in formulating its investment strategies, STC may decide to exclude certain types of investments from a managers' benchmark such as tobacco manufacturing companies.

4 Implementation of STC’s ESG Policy

STC’s ESG Policy is implemented through a six part program which is set out below

4.1 Investment strategy development and research

STC believes that properly understanding and assessing the likely material risks and returns of its investments is an inherent requirement of fulfilling its fiduciary duties to its members and considers the ESG performance of companies in which STC invests to be relevant to the performance of STC’s investment portfolio. In implementing this part of the ESG program STC:
• Incorporates the consideration of ESG issues in strategy formulation at the asset class and manager levels;

• Supports the development of ESG related metrics and analysis through its continuing membership of ACSI and ESG Research Australia; and

• Requires each of STC’s fund managers to report to STC annually (with case studies and statistics) the extent to which ESG factors are taken into account in security analysis and portfolio construction and to provide both statistical and narrative reporting (still to be documented for some investment managers).

• Participates in relevant organisations such as ACSI, IGGN, IGCC and CGI as well as participating in the UNPRI.

4.2 Proxy voting
STC believes that informed, active voting of proxies provides the most effective way to encourage companies to adhere to the ASX corporate governance principles which are as follows:

   Principle 1: Lay solid foundations for management and oversight
   Principle 2: Structure the board to add value
   Principle 3: Promote ethical and responsible decision-making
   Principle 4: Safeguard integrity in financial reporting
   Principle 5: Make timely and balanced disclosure
   Principle 6: Respect the rights of shareholders
   Principle 7: Recognise and manage risk
   Principle 8: Remunerate fairly and responsibly

In translating these principles into action STC undertakes the following approach:

• Requires its Australian equity managers to vote on all resolutions at all meetings.

• Subscribes to the CGI Glass Lewis proxy voting advisory service and benchmarks fund manager voting against the advice provided. Fund managers are asked to explain if votes differ from the CGI Glass Lewis advice.

• Requires its fund managers to lodge a copy of their proxy voting policy with STC on appointment and annually thereafter.

• Reserves the right in exceptional circumstances to override the voting decision(s) of a manager and issue a direction to the fund manager as to how to vote. This function is undertaken by the General Manager Investments following consultation with the Investment Committee. The ability to override a manager’s vote is a standard clause in STC’s IMA for Australian equity managers.
4.3 Engagement with fund managers

STC considers the integration of ESG information throughout mainstream investment analysis to be essential, and therefore promotes integration of material ESG issues into investment decision-making by its fund managers. STC expects its fund managers to exercise its ownership rights including proxy voting and communication with company management and to manage investments on behalf of STC with long-term investment performance in mind.

- STC adopts the following approach in its interaction with fund managers in respect to ESG: In association with its asset consultant, STC includes assessment of the ESG capabilities of fund managers as part of due diligence in manager selection and in periodic reviews of incumbent managers.

- Commends the ACSI Corporate Governance Guidelines to its fund managers.

- Having embedded ESG as a core strategy, by ensuring the policies adopted by the Trustee in respect of prohibited investments such as tobacco product manufacturers, ‘controversial weapons manufacturers’ (including those involved in the manufacture of cluster munitions, biological and chemical weapons and depleted uranium) are excised from IMAs agreed with managers.

In relation to STC’s unlisted investments, STC will always aim for board representation and negative control, which are used to control the risks of the investment including from an ESG perspective.

4.4 Engagement and advocacy within the wider investment community

STC believes that collaborative engagement with other shareholders or stakeholders can lead to improvements in company behaviour, policies and financial systemic conditions. STC undertakes this role through participation with likeminded institutions and specifically undertakes the following activities:

- Signatory to the UNPRI and reports on its approach in respect to the principles and its more general ESG activities

- Engages with company managements and boards through membership of relevant industry bodies such as ACSI.

- Requires its ESG-related service providers to report regularly on their engagement and advocacy activities.

- Encourages its fund managers to engage on ESG issues with the managements and boards of companies in which they invest on behalf of STC and to report to STC on any such engagement activity.

- Contributes to the development of submissions on policy, regulation, and standard setting to government and regulators by relevant industry bodies such as ACSI.

- Member of the IGCC and a signatory to the Carbon Disclosure Project which encourages companies to measure and disclose their environmental risks
4.5 STC staff development and education

A practical understanding of ESG issues is essential if STC Board Members and staff are to effectively engage with fund managers and other investment service providers and to ensure that these parties discharge their agreed responsibilities. To this end STC will provide appropriate staff and director training and development on ESG matters including:

- Arrange relevant continuing education for Board Members and staff.
- Encourage participation by Board Members and staff in relevant industry bodies and forums.

4.6 Communication with STC stakeholders

STC communicates to stakeholders and other interested parties its positions on ESG issues either on its web site or via mailed newsletters. STC responds directly to member queries related to ESG issues. STC will also make available on its website its annual reporting under UNPRI.

5 Compliance

The General Manager, Investments is responsible for monitoring compliance with this Policy.

6 Review of Policy

This Policy will be reviewed at least annually and submitted to the Board, incorporating any recommended revisions, for endorsement for a further year.

(a) The General Manager, Investments in conjunction with the Investment team will ensure this Policy is formally reviewed:

(i) to include changes in compliance requirements, including legislation, regulations, licence requirements and industry standards immediately;

(ii) otherwise at least once a year, and report the results of the review to the Board.
Schedule 1

STC Proxy Voting Policy

The Proxy Voting Policy of STC is as follows:

1. STC recognises that voting is a component of investment management.

2. In view of the limitation of STC’s investment powers contained in section 59 of the Superannuation Administration Act 1996, in it being prevented from itself “providing superannuation investment management services”, STC must delegate the function of voting of shares to its Australian equities managers.

3. STC recognises the value and importance of the right to vote that attaches to share ownership, particularly as it is a factor that could affect the value of any investment, and has implemented a policy with managers in voting proxies of stock they hold.

4. The proxy voting policy of investment managers is one of the criteria assessed by STC when selecting a new manager.

5. Managers are required, through their investment mandate, to:
   a. lodge a copy of their voting policy with STC at least annually and keep STC apprised of changes;
   b. vote on all resolutions at all meetings;
   c. report quarterly to STC on how they voted;
   d. where required, explain why they voted as they did; and
   e. consult with STC where a potentially sensitive or controversial issue arises.

6. STC subscribes to the proxy voting advisory service of CGI Glass Lewis Pty Ltd (“CGI”) to provide a benchmark against which to measure Australian equities managers’ voting. STC requires managers to explain any vote;

7. The Executive reports to the Board on Australian equities managers’ voting on a semi-annual basis, following reports from the custodian and reports from the managers and consistent with the AGM season.

8. In respect of stock lent in the custodian’s securities lending program, managers need not call back such stock in order to vote, unless there is a vital issue involved.

9. The investment mandate for Australian equities managers is kept under constant review to ensure it reflects STC’s requirements.

10. Intervention protocol/mechanism

    If an issue requiring special consideration through it being:

    a. flagged as specially important by CGI;
    b. identified by the Executive from the CGI meeting report as being specially important;
    c. brought to the Executive’s attention by a fund manager or a Board Member; or
    d. becomes apparent to the Executive from other industry contacts or media coverage,
the Executive will:

e. ascertain the voting intentions of all managers holding the stock and rationale for these;

f. prepare a recommendation for endorsement by the CIO or in exceptional cases and after consultation with the CIO, prepare a recommendation for submission to the Board;

g. convey STC’s voting preference to managers and report the outcome to the Board.

11. The CEO will consult with the Chairman to determine the Board’s position in those situations where timing issues prevent the Board’s involvement in corporate issues relating to investee companies.