Australian Retirement Trust

Australian Retirement Trust - Sustainable Investment Policy

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Purpose

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

This SI Policy is approved by the Board of Australian Retirement Trust Pty Ltd (ABN 88 010 720 840) as trustee for ART ("the Trustee") for the management of the investments held by ART.

ART is a superannuation fund whose ambition is to improve retirement outcomes for members to and through retirement. The delivery of the ambition as it relates to investment outcomes, is based on a core set of inter-related investment principles, including that "Sustainable investing leads to superior outcomes", recognising:

- It is a component of the Trustees' legal duty to act in the best financial interest of members.
- Environmental, social, and governance (ESG) factors can be financially material for investee companies and therefore a source of investment risk and opportunity.
- Stewardship plays an important role in seeking to improve long term returns. Being an investor provides opportunities to seek to influence ESG factors that impact the financial performance of investee companies.
- As a large investor with a globally diversified portfolio, ART has investments that may impact environmental and social matters within the world that members live and retire into.

The purpose of the SI Policy is to articulate ART's approach to sustainable investment within its investment portfolio. Decisions and actions made under this SI Policy are to be made in line with members' best financial interests.

Effective management of the retirement savings of members requires that ART incorporate the financial implications of ESG factors (which include, among other factors, labour standards and climate change), into investment processes. We believe this is consistent with a focus on investment outcomes in the long term, as is pursuing appropriate opportunities that emerge from ESG considerations.

ART investment strategies are guided by consideration of ESG factors alongside other traditional financial considerations. In doing so, ART considers the following sustainable investment approaches: ESG integration; screening (exclusions); and stewardship. This SI Policy also supports ART's regulatory requirements as they relate to sustainable investments. As such, this Policy includes ART's proxy voting policy. Further, climate change and modern slavery considerations, as they relate to the investment portfolio are also covered under this SI Policy.

The SI Policy does not cover ESG activities of ART in its corporate capacity as an enterprise and employer.

Definitions of sustainable investment related terminology used throughout this SI Policy are provided in Appendix A.

Roles and Accountabilities

The Trustee is at all times responsible for ART's investments. The ART Board has oversight of sustainable investment activities, including approval of this SI Policy, along with climate change considerations for investments. The governance structure leverages the governance that is in place for other investment-related activities to ensure integration of ESG considerations with other investment matters and is based on delegated authority.

Board delegations outline the responsibilities for oversight of sustainable investments by the Investment Committee. The Chief Investment Officer (CIO) has authority from the Investment Committee to implement portfolio activities related to sustainable investment, including in relation to climate change. The Board retains overall responsibility for all delegated powers.

The CIO has established various management committees for integration of these related matters within investment portfolios, decision-making and portfolio resilience. As part of their scope, these committees oversee implementation of actions outlined in this SI Policy, including recommending the overall Sustainable Investment strategy, incorporating consideration of climate change matters, for endorsement by the Investment Committee and Board approval.

The Head of Sustainable Investments is responsible for developing the overarching Sustainable Investment strategy in consultation with the Investments and Investment Risk teams, along with ensuring appropriate training and knowledge-building within these teams. The Investments teams are responsible for implementing actions that relate to their roles, including requirements that relate to investment managers, service providers and advisers to ART.

A representative from each Investments team will be appointed as a Sustainable Investment Champion to support ESG integration.

The SI Policy is reviewed and approved by the Board on at least a two-yearly basis.

Remuneration

For Investments team members, sustainable investment, including climate change related measures may be included in an individual's annual performance planning, where appropriate. Individual performance may contribute to a portion of remuneration through short-term incentives.

Training

Annual training will be provided to the Board or its sub-committees and Investments team on ESG related investment matters, including climate change.

Conflicts of Interest

ART has a Conflict Management Policy. The Conflict Management Policy applies to all decision-making in relation to sustainable investment.

Application

The SI Policy applies to all superannuation investments held within ART.

ART has investments across the global economy including exposure to many regions, sectors and within multiple asset classes. Different investment strategies within each asset class are used to gain access to investments in a variety of companies. These are managed either by external fund managers or directly by internal teams and are active or passively managed. The investment portfolio also includes investments in derivatives. Whilst the majority of investments relate to defined contribution liabilities, investments may also underpin defined benefit plans.

The approach to sustainable investment within the portfolio is dependent on the characteristics of the asset class and the investment strategies. Therefore, implementation differs between and within each asset class.

ART will utilise a range of sources for the identification and assessment of material ESG risks and opportunities across the investment portfolio. These can include internal expertise, third-party service providers, asset consultants, external investment managers, member organisations and publicly available information.

Externally managed investments

ART invests the majority of the portfolio through external investment managers. Investment structures are typically through segregated mandates or pooled vehicles. Segregated mandates are an agreement between ART and the external manager.

Pooled vehicles (unit trusts) use a common set of rules that apply to all investors within that trust. Individual requirements, such as ESG, are more challenging to incorporate into this type of structure.

ART will incorporate ESG requirements into segregated mandates and will seek to include in pooled vehicle arrangements, as appropriate.

Internally managed investments

ART also utilises the capability of internal investment management teams for direct investments or co-investments. ESG considerations will be incorporated into internally managed investments, as appropriate, in accordance with the style of these investment strategies.

ESG Integration

ESG integration is predominantly achieved through the selection and appointment of new investment managers, and monitoring through assessment of, and engagement with, existing investment managers. ART assesses the sustainable investment capability of investment managers, through reviewing their policies and processes and assigning them with an internally developed ESG rating. Using the ESG ratings, an ESG baseline will be developed to evaluate the comparative sustainable investment capability of assessed investment managers. Outcomes from this ESG baseline will inform a management oversight framework that identifies select investment managers for engagement, with the aim of improving their processes to integrate ESG factors across the investment cycle.

For large private markets asset due diligence, new investments and co-investments are to be analysed using a financial materiality, sector-based approach to identifying ESG factors for consideration in direct investment decisions. For smaller private markets co-investments, ART will primarily rely upon diligence undertaken by its appointed external investment managers.

Screening (Exclusions)

ART applies screening (exclusions) in limited circumstances. ART generally prefers to retain its position in investments, because it may provide an opportunity for ART, or its external investment managers, to engage with companies to seek to improve their practices where there is the scale and influence to do so (see Stewardship). It also helps to retain diversification of the portfolio. There are, however, some occasions where it may be considered appropriate to exclude certain investments, a practice known as screening. Exclusions are approved by the Investment Committee.

Exclusions are published annually and described in the relevant Investment Guides listed on the ART and QSuper websites.

Exclusions are applied to investments in the Equities – Australian and International Shares asset classes as specified in the Investment Guides. and apply to either companies, sectors, activities or regions. They do not apply to listed shares pooled vehicles or derivatives. ART may also seek to apply exclusions for other asset classes, where appropriate.

Sometimes ART may accept excluded listed shares as part of successor fund transfers. In this instance, ART will seek to divest in a manner aligned with members' best financial interests, usually within 30 days of the completion of the transfer.

The exclusion lists are updated twice yearly. Following those updates, external investment managers are informed which listed equity shares are required to be excluded from new and existing investments.

Exclusions are not applied to investments associated with the QSuper Defined Benefit product nor the QSuper Self Invest option.

A broader set of exclusions apply to the Equities – Australian and International Shares asset classes within the ESG member choice options.

ESG member choice options

ART offers at least one member choice investment option for members who want their investments to be made in line with an extended set of ESG principles, than those considered across our other available investment options.

The option(s) employ additional sustainable investment approaches (ESG integration, exclusions, stewardship and thematic investing), as relevant for each asset class.

A broader set of exclusions apply to the Equities – Australian and International Shares asset classes within the options.

Information on ESG member choice options, including the sustainable investment approaches followed by those options, are published annually and described in the relevant Investment Guides published on the ART and QSuper websites.

Stewardship

Stewardship activities are undertaken by ART through engagement and proxy voting.

- **Engagement**

When engaging with investees companies on ESG factors, ART seeks to improve behaviours, promote best practice, and develop a better understanding of business and strategic decisions. Where practical, engagement activities aim to build stronger relationships between ART and the companies it engages with.

Due to the number of holdings, ART cannot engage with all companies in which it is invested. Where engagement occurs with investee companies, the following methods are used: direct, collaborative or through a service provider.

Where ART proactively engages directly, it will set formal objectives for those companies. An escalation framework will be employed for situations when companies aren't responding to stewardship. This will allow for the potential to ultimately result in divestment from a company or asset, (see Screening (Exclusions)).

- **Policy on Proxy Voting**

We aim to vote at all company meetings on resolutions for which we are eligible to vote. In principle, ART retains the voting rights and votes through a single proxy voting platform. There are three exceptions to this policy:

- Investment Mandates where ART has delegated proxy voting rights to the external investment manager where stewardship through proxy voting is integral to their investment strategy
- The QSuper Defined Benefit product, and
- The QSuper Self Invest option.

ART generally follows the ACSI Governance Guidelines on proxy voting, though consideration may be given to the recommendations of another proxy advisor, external investment managers, other service providers and/or other stakeholders when making voting decisions. ART ultimately has the responsibility for voting decisions.

An internal governance delegation framework outlines the responsibilities for and execution of ART's proxy voting. Proxy voting outcomes are made publicly available on the ART website within one week of an Annual General Meeting.

- **Securities Lending**

ART endeavours to have shares on loan through the Securities Lending Program recalled for the purpose of proxy voting.

Impact Investing

ART may allocate capital to investments that have the explicit intention of generating positive social and/or environmental impact alongside a financial return in accordance with our legal duties. When the capital is allocated, recognised industry criteria will be used for measurement and monitoring of the impact.

Class Actions

As part of ART's investment portfolio, the Trustee holds shares in entities. From time to time, those investee entities may become subject to a class action. ART has a Shareholder Class Action Policy which outlines the parameters and key issues for consideration in relation to ART's participation in shareholder class actions.

Advocacy

ART may choose to be involved in sustainable investment advocacy activities related to the legal, regulatory, and economic environment through engagement with policymakers and stakeholders directly and through member organisations and initiatives.

Partners

Working with other organisations and initiatives to learn, share knowledge and advocate for change can be a beneficial way to address systemic risks such as climate change, and also an effective use of resourcing.

ART maintains membership in several professional organisations that specialise in ESG matters such as stewardship, climate change and modern slavery. ART will consider active participation in member organisations and associated working groups in appropriate circumstances.

Prioritisation of ESG topics

Sustainable investment is a broad topic with a multitude of ESG factors that may give rise to financially material risks for a company, or investment portfolio. The following criteria will be applied in the assessment and selection of ESG topics for deeper analysis on a two-yearly cycle:

- The issue is considered a systemic risk
- The issue is likely to be regulated
- The issue is an emerging ESG issue, and
- The issue is one that ART may have the ability to effectively influence.

In addition to ESG topics identified through this process, climate change and modern slavery will be ongoing topics of focus.

- **Climate Change**

ART recognises that climate change poses financial risks. Accordingly, ART will seek to manage climate-related risks and opportunities in the investment portfolio. ART has a target to achieve a net zero greenhouse gas emissions investment portfolio by 2050 (NZE2050) aligned with the Paris Agreement goal of limiting global warming to well below 2°C (Scope 3 category 15 (investments) emissions) (“the NZE2050 target”).

ART has interim climate-related targets against which it measures the progress of the NZE2050 target. A Net Zero 2050 Roadmap outlines the interim climate-related targets and how ART proposes to transition the investment portfolio and accelerate actions towards a net zero economy as at the time of publication of the Roadmap. The Net Zero 2050 Roadmap is published on the ART website along with annual public reporting on climate change (see **Reporting**).

- **Modern Slavery**

The *Modern Slavery Act 2018* (Cth) requires large organisations, such as ART, to report on how they identify, assess and address modern slavery risks in their operations and supply chain. ART has a Modern Slavery Framework Policy which outlines the approach to meeting its regulatory requirements. In line with this Framework, this SI Policy establishes the processes to meet ART’s regulatory obligation as it relates to external investment managers and investee companies.

An internal ‘respect and remedy’ framework is used to identify and, where known, seek to address the risks of modern slavery, within the investment portfolio. ART will report on its investment activities annually in accordance with the requirements of the *Modern Slavery Act 2018*.

Risk Management

ART has developed and implemented a comprehensive risk management framework, which focuses on the identification, analysis, evaluation, treatment, monitoring and communication of risks. The Risk Management Framework has been approved by the Board and forms part of the governance arrangements of the Investments team. In line with this, processes are established to give effect to this Policy, including with respect to the preparation and publication of reporting on sustainable investment activities, including climate change.

Reporting

ART will provide an internal report on its sustainable investment activities, including those relating to climate change, on a half-yearly basis to the Investment Committee and relevant internal management committees and stakeholders.

ART will publicly report on its Sustainable Investment activities. This will be available to members, employers, and other external stakeholders on an annual basis via the website. The purpose of this information is to summarise the ESG related investment activities undertaken during the preceding period, including in relation to climate change considerations.

This document, along with other material published publicly in relation to ART's sustainable investment activities, is prepared in accordance with an internal due diligence process, which governs the preparation, review and verification of the material prior to its publication.

ART will seek to communicate sustainable investment related information in a clear manner, accessible to members. Members are encouraged to provide feedback on ART's sustainable investment activities. Feedback can be submitted on the ART website.

Appendix A: Definitions

Collaborative engagement A collective initiative, where company engagement is facilitated by a group of investors, to which ART is a member or signatory.

Direct engagement A dialogue between ART and an investee company. Engagement is typically conducted one-on-one where views can be expressed candidly, and in the spirit of improving sustainability practices.

ESG Integration* Ongoing consideration of ESG factors within an investment analysis and decision-making process with the aim to improve risk-adjusted returns.

Impact Investing* Investing with the intention to generate positive, measurable social and/or environmental impact alongside a financial return.

Modern Slavery The term modern slavery is used to describe situations where coercion, threats or deception are used to exploit victims and undermine or deprive them of their freedom. Modern Slavery includes the following: trafficking in persons; slavery; servitude; forced marriage; forced labour; debt bondage; deceptive recruiting for labour or services; and the worst forms of child labour. Modern Slavery does not include practices like substandard working conditions or underpayment of workers.

Screening* Applying rules based on defined criteria that determine whether an investment is permissible.

ART applies negative screening rules, which we call ***Exclusions***, that determine when an investment is not permitted.

Scope 1[#] – Direct emissions from owned or controlled sources

Scope 2[#] – Indirect emissions from the generation of purchased energy

Scope 3[#] – All indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Scope 3 category 15 (investments) emissions[#] **–** Includes scope 3 emissions associated with the reporting company's (ART's) loans and investments in the reporting year. For ART, this could include **Scope 1, 2** and / or **Scope 3** financed emissions from investee companies. The applicable scopes will be specified in any disclosures.

Service provider engagement ART appoints a third-party service provider to undertake engagement with companies on ART's behalf. This can include engagement conducted by external investment managers.

Stewardship* The use of investor rights and influence to protect and enhance overall long-term value for clients and beneficiaries, including the common economic, social, and environmental assets on which their interests depend.

Sustainable Investment* Also known as responsible or ethical investment, is a broad-based approach to investing which factors in people, society and the environment, as well as financial performance and risks when making and managing investments.

Thematic investing* Selecting assets to access specified trends.

* As defined by the 2023 CFA Institute, Global Sustainable Investment Alliance and Principles for Responsible Investment. Definitions for Responsible Investment approaches
**Responsible Investment Association Australasia, 2023: "Responsible Investment Benchmark Report Australia 2023",
[#] Adopted from PCAF (2022). The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second Edition.