

Responsible Investment Report

Responsible investing in action

Silverton Wind Farm Source: QIC

 sunsuper



Welcome to Sunsuper's 2018-19 *Responsible investment report.*

Fulfilling the investment goals and objectives of Sunsuper's members requires long-term thinking. The average Sunsuper member is just over 37 years of age and is unlikely to access their retirement savings for decades - an investment horizon that will encompass substantial global themes, many of which relate to social and environmental challenges and opportunities that may impact future returns.

Responsible investment considerations are deeply embedded into our investment decision-making process. Being a profit-for-members superannuation fund simplifies our purpose immensely - it clearly enables us to take a member-centric view of everything we do. In particular, it affords us the opportunity to focus on maximising long-term retirement outcomes for members.

Responsible investment at Sunsuper is a journey that may never have a destination but will continually move in the right direction. Recent developments in climate risk reporting and the enactment of the *Modern Slavery Act* in Australia are signs that this journey will continue for many years to come. We continue to refine our environmental, social and governance (ESG) tools, practices and approach to manage persistent and newly emerging ESG considerations.

We hope that this report inspires confidence in our members that Sunsuper is on track to address ESG challenges and opportunities over the long term. Looking forward, the task ahead is clear: continuing to focus on the outcomes we achieve for members is our reason for being. Reducing risks and taking advantage of opportunities related to the environment, society and corporate governance fits squarely within this construct.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ian Patrick'. The signature is written in a cursive style with a long horizontal stroke at the end.

Ian Patrick
Chief Investment Officer

Sunsuper’s approach to responsible investing

Sunsuper and responsible investing	4
What is responsible investing?	5
Sunsuper’s Social Licence to Invest	6
Industry collaborations	7

Environmental

Climate change	9
Carbon footprint	10
Sustainability of real assets	11
Green bonds	13

Social

Sustainable Development Goals alignment	16
Diversity	17
Human rights and modern slavery in supply chains	18

Governance

Good corporate governance	20
Proxy voting	20
Exclusions	20
Class actions	21
Appendix: Carbon footprint methodology	22

Sunsuper and responsible investing

Sunsuper is one of Australia's largest and fastest growing super funds with 1.4 million members and \$72 billion in funds under management (at November 2019).

Our purpose is to inspire and empower Australians to fulfil their retirement dreams.

It's our reason for being and motivates us to help our members grow their super through award-winning products, strong, long-term investment returns, and lower administration fees - all of which can help lead to the retirement of their dreams.

Everyone has different retirement goals. That's why we offer a broad range of investment options, so members can choose an investment to suit their circumstances, life stage and dreams for the future

Among a range of other factors, Sunsuper considers environmental, social and governance (ESG) risks, impacts and opportunities in our investment decision-making processes in order to protect and manage investments for the long term. We believe that, all other things being equal, entities that best manage ESG factors are more likely to be financially sustainable in the long term.

What is responsible investing?

Responsible investing considers ESG factors in the research, analysis, selection and monitoring of investments to manage risk and ensure long-term sustainability of returns.

“ *Our approach to responsible investing is guided by our fiduciary duty to members, our core investment beliefs and our Social Licence to Invest (SLI).* ”

Our approach to responsible investing is guided by our fiduciary duty to members, our core investment beliefs and our Social Licence to Invest (SLI). In terms of our fiduciary duty to members, we aim to maximise members’ real, long-term investment returns without taking undue risks.

To best protect and manage investments for the long term, we consider ESG risks, impacts and opportunities in our investment decision-making process. ESG integration is consistent with better investment outcomes, coupled with creating a better future for our members. We believe that, all other things being equal, entities that best manage ESG factors are more likely to be financially sustainable over the long term.

There are a multitude of issues to consider in responsible investing. Some examples include:



Sunsuper's Social Licence to Invest (SLI)

One of the challenges we face as an investment team is the plethora of issues that could fall under environmental, social and governance themes. Some topics may be important to a small subset of our members, but not material from an investment sense. Other topics may spark debate as to the importance of the issue, not to mention how SunsUPER should respond.

To address this challenge, we have produced a framework that incorporates the concept of a Social Licence to structure our ESG and stewardship activities. Our Social Licence to Invest (SLI) framework allows us consider the extent to which our investments have responsible investing characteristics and informs our actions for material ESG issues. The SLI includes five mechanisms for action: exclusion, activism, engagement, watch and support.

“ *The SLI includes five mechanisms for action: exclusion, activism, engagement, watch and support.* ”

Exclusion



Also known as negative screening, exclusion is the ultimate sanction against entities. Entities are excluded when all other options have been exhausted or when there is no conceivable way that activism will yield the desired result, such as in the case of tobacco manufacturing.

Activism



Activism involves taking a more vocal attitude to expressing our concerns and desires as an investor. SunsUPER may take this action in the event that engagement has failed over an extended period. Actions may include statements to the press, sponsoring shareholder resolutions at annual general meetings, calling shareholder meetings, writing to other shareholders, writing open letters to companies and participating in shareholder class action lawsuits.

Engagement



This is SunsUPER's preferred approach. Engagement is typically conducted behind closed doors where views can be expressed freely. Engagement activities are often followed up via proxy voting. Milestones have been set in relation to identified priority ESG issues. In the event the milestone has not been met in the timeframe prescribed, the issue may be elevated to activism.

Watch



This implies a more passive approach towards the issue. Here we will continue to monitor an issue through broker research, media and other third-party sources. We will explore with managers and investee companies to ascertain the magnitude of the risk or opportunity, and their strategies to manage or take advantage of it.

Support



This action is different from the actions above as it denotes a positive sentiment related to an issue SunsUPER supports. We can make investments that have both a financial return and a measurable social benefit or environmental impact. These impact investments must meet the same strict risk and expected return parameters as our traditional portfolio investments.

Industry collaborations

We collaborate with organisations focused on improving transparency and leading ESG standards across all investment asset classes to drive meaningful change in environmental, social and governance-related practices.

By focusing on long-term, sustainable policies and mitigation approaches, we believe we can reduce risk, enhance sustainability and ultimately improve member outcomes.



Member

The Responsible Investment Association Australasia (RIAA) champions responsible investing and a sustainable financial system in Australia and New Zealand

Signatory of:



Signatory

UNPRI is a leading, independent proponent of responsible investment practices globally.



Investor Member

Global Real Estate Sustainability benchmark is a leading global environmental, social and governance (ESG) benchmark for real estate and infrastructure investments



Signatory

The Workforce Disclosure Initiative is an investor network with over \$14 trillion assets under management calling for transparency from companies on how they manage their workforce

Environmental



Katwijk Waste Water Treatment Plant (WwTP) near Leiden in Western Netherlands *Source: AIM*



Climate change

Climate change is one of the most significant environmental, social, economic and technological shifts of our time. The physical and transition impacts of climate change permeate across asset classes, geographies and industries and will continue to emerge for decades. Widespread scientific evidence supports the need to keep global warming well below 2°C above pre-industrial-era levels to prevent catastrophic and irreversible damage.

Sunsuper distinguishes two broad categories of risk from climate change: physical risks and transition risks. Physical risks manifest due to global warming and include both chronic and acute weather events such as droughts, floods, heavy rainfall, extended fire seasons, storm surge, coastal erosion and biodiversity loss. Transition risks arise due to societal efforts to minimise the causes of climate change or adapt to its implications, and include policy risks, disruption risks and consumer behavioural changes.

From an investor's perspective, climate change represents a potentially substantial financial risk, though it is very difficult to quantify due to the high number of uncertainties. Over the past years, Sunsuper has been assessing areas of investment with the most salient and material exposure to climate change. The work on these initiatives will inform our future climate risk and opportunities.

Carbon footprint

Carbon policy risk is the risk that governments impose a tax on carbon, and the resulting financial impacts on our portfolio-companies' earnings. Australia has historically tried to institute a carbon pricing scheme but has pivoted towards a Climate Solutions Fund instead. Globally, it is possible that the longer governments delay carbon pricing, the more drastic the policy response is likely to be to meet community expectations and commitments to international climate-change mitigation agreements. Logically, it follows that companies who produce carbon emissions in their operations are likely to be affected by a carbon price.

In 2018, we undertook our first carbon footprint review as an initial step in understanding our exposure to carbon policy risks. We calculated a range of portfolio carbon metrics to understand the exposure to carbon regulation within our listed shares holdings. In order to facilitate comparison between Sunsuper's listed shares portfolio and our benchmark, we have used the TCFD recommended weighted average carbon intensity (WACI), which takes into account the carbon emissions per dollar of revenue and the size of that investment relative to the total portfolio. Refer to the table below and the Appendix.

As at 30 June 2018	Weighted average carbon intensity (tCO ₂ e/\$m revenue)	Absolute emissions (tCO ₂ e)	Carbon footprint (tCO ₂ e/\$m invested)
Portfolio	236	3,129,404	112
Benchmark	237	2,913,923	104

This exercise also highlighted the numerous challenges for institutional investors to assess their carbon-emissions exposure. Currently, there is no regulatory requirement for our investee companies to report carbon-emissions data resulting in incomplete coverage across our investments. Where data is publicly available, it is often unaudited. We engage with companies to encourage greater and more robust climate disclosure, and where the data has been unavailable we have used internal estimates. While we believe the above table appropriately reflects the carbon metrics of the portfolio, we will continue to work to improve the transparency and quality of reporting from our investee companies.

Task Force on Climate-related Financial Disclosures

There are concerns within the financial community that some assets are mispriced as financial impacts of climate risks have not been priced in to fair market value. The Task Force on Climate-related Financial Disclosures (TCFD) was established by the G20's Financial Stability Board to develop a set of recommended climate-related disclosures in annual filings and reports. The voluntary recommendations aim to improve the quality and consistency of financial impact reporting from climate-related risks, which allows investors to better assess and price those risks. By increasing decision-useful information through TCFD disclosures, global capital will drive allocations to sustainable investments, helping to safeguard the resiliency of the global economy.

The recommendations call for companies to communicate¹:

Governance

The organisation's governance around climate-related risks and opportunities

Strategy

Impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning

Risk management

Processes used by the organisation to identify, assess and manage climate-related risks

Metrics and targets

Metrics and targets used to assess and manage relevant climate-related risks and opportunities

¹ <https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf>

Sustainability of real assets

Sunsuper holds investments in real assets such as airports, toll roads and properties, for years and even decades, due to the illiquidity inherent in these investments. Given the long-term investment horizon, a focus on sustainability measures such as waste management, water usage and energy efficiency are integral to investment performance. In 2018, we leveraged the Global Real Estate Sustainability Benchmark (GRESB) to assess and benchmark the ESG performance of our Property asset class against the participating manager universe. GRESB sets the global standard for real asset ESG benchmarking, evaluating real-asset performance against seven sustainability aspects and approximately 50 indicators.



GRESB Real Estate assessments covered 54 per cent of Sunsuper's Property portfolio as of 31 December 2018. Our combined Property portfolio investments received a weighted average 4-star rating and an overall score of 80/100. We have engaged with our existing stable of property managers and expect improved participation in the 2019 GRESB assessment.

Energy efficiency

Sunsuper supports initiatives to increase energy efficiency as they sit at the intersection of cost savings, consumer demand and improved environmental outcomes. For example, energy efficiency in buildings saves the owners and tenants money in the form of lower power bills, which in turn improves investment outcomes for members. In addition, many governments have a minimum requirement for building energy ratings - they will only take leases in highly efficient buildings. These factors lead to higher demand for our properties, longer tenancies, improved counterparty risk and lower vacancy rates, all of which improve members' outcomes.



Property - GPT Wholesale Office Fund (GWOF)

The GPT Wholesale Office Fund invests in high-quality office assets located in Australia's major office markets. GPT Wholesale Office Fund received a GRESB Green Star status in 2018, scoring 87/100 in the 2018 benchmarking survey.

This performance places GWOF in the top 10 per cent of the 874 global GRESB participants. In 2018, the fund reduced greenhouse gas emissions by 5,766 tonnes CO₂ and water usage by 14,553m - the equivalent of 1,219 cars and six Olympic swimming pools respectively. Sunsuper's investment in GWOF was \$220m as at 30 June 2019.

Infrastructure - Powering Australian Renewables Fund (PARF)

In 2016, QIC, in collaboration with AGL Energy, sought to finance the development of large-scale renewable-energy infrastructure in Australia to accelerate efforts towards meeting the Australian Federal Government's Renewable Energy Target (RET) and the global transition to a low-carbon economy. The fund aims to develop 1,000MW of installed capacity, which will make it the largest owner of renewable-energy capacity in Australia.

To date, PARF is responsible for the development and operations of four renewable-energy projects in Queensland and New South Wales: Broken Hill Solar Plant, Nyngan Solar Plant, Coopers Gap Wind Farm and the Silverton Wind Farm. The Coopers Gap Wind Farm, located 250km north-west of Brisbane, will have a capacity of 453MW and produce 1,510,000 MWh of renewable energy - enough to power approximately 264,000 average Australian homes².

Sunsuper is invested in QIC Global Infrastructure Fund, which, in turn, has invested in the Powering Australian Renewables Fund.

² <https://www.agl.com.au/about-agl/how-we-source-energy/coopers-gap-wind-farm>



Nyngan Solar Plant, an investment in the Powering Australian Renewables Fund (PARF) Source: QIC



Green bonds

Green bonds play an essential role in financing new or existing projects that have positive environmental or climate externalities such as energy efficiency, sustainable transport, waste management, building construction, water and land use.

What is a green bond?

Green bonds (also known as climate bonds) are fixed-income instruments that were created to finance climate-change solutions and projects with positive environmental impact. Through investing in green bonds, Sunsuper is able to simultaneously generate a financial return for members and help finance the transition to a low carbon economy.

Fixed Income - Affirmative Global Impact Strategy

In 2019, Sunsuper invested in the Affirmative Investment Management Global Impact Bond Strategy as our first dedicated green-bond manager in the Fixed Income portfolio. The strategy's core aim is to maximise risk-adjusted returns against a traditional global fixed-income benchmark. The strategy invests in bonds whose proceeds are used for projects that help mitigate and adapt to the impact of climate change and help create positive social and sustainable outcomes. Affirmative Investment Management has developed a comprehensive green-bond investment approach that embeds sustainability criteria into the core evaluation process.

Asian Development Bank Green Bond: This is an example of a green-bond investment we have made within this strategy. The bond finances the project that supports Pakistan's goals of sustainable economic development and enhanced energy security.

“ *The project aims to install 1,000 micro-hydropower plants and rooftop solar panels for 23,000 schools and 2,500 hospitals.*

The project aims to install 1,000 micro-hydropower plants and rooftop solar panels for 23,000 schools and 2,500 hospitals, with targets that will provide 1.5 million people in rural Pakistan with electricity.

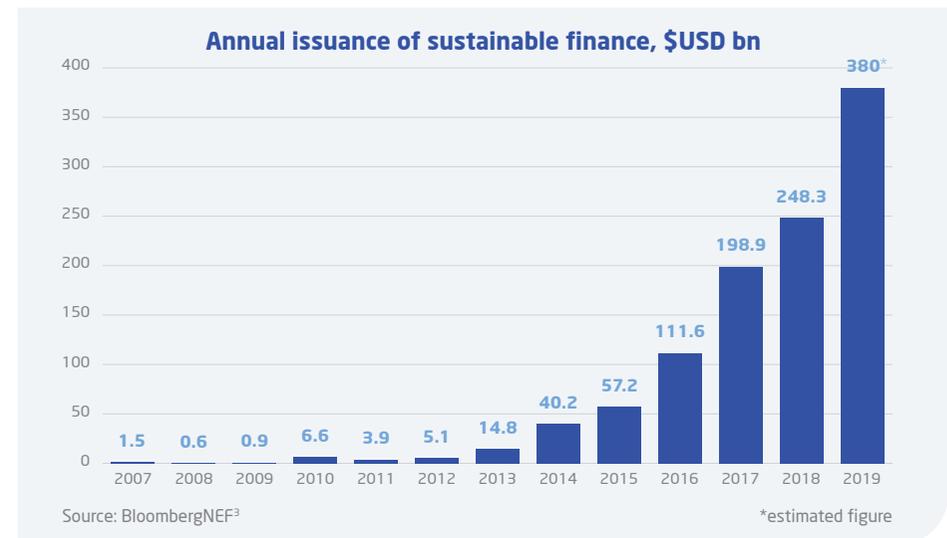
³ <https://about.bnef.com/blog/sustainable-finance-market-outlook-2h-2019/>

It has three major objectives:

1. Expand access to renewable energy for schools and hospitals.
2. Provide women with access to energy services and benefits.
3. Promote public sector energy efficiency and institutional capacity for sustainability.

Intesa Sanpaolo Green Bond: This company issued a green bond to fund a 10 MW capacity onshore wind farm built in the municipality of Bisaccia in Italy. Comprising five turbines, each with 2 MW energy capacity, the wind farm successfully connected to the national electricity grid once development was completed in 2016.

As shown in the graph below, since the introduction of green bonds by the European Investment Bank in 2007, there has been significant growth in the issuance of green, climate and sustainability bonds as private capital has recognised the need to assist governments in financing the transition to a low-carbon economy.



Social



Sustainable Development Goals alignment

In 2019, we mapped the business activities of large portfolio companies in our Private Capital portfolio to the United Nations Sustainable Development Goals (SDGs). Private Equity tends to invest in smaller companies, be more innovative, and is not as constrained to a listed benchmark than listed equities. Therefore, the Private Capital portfolio is more likely to have solutions that contribute to the goals.

Through this process, we are pleased to report that at the time of analysis, 25 portfolio companies representing ~\$327m (8 per cent of the Private Capital portfolio) are in some way aligned to seven of the SDGs via an underlying target: good health & well-being, quality education, affordable & clean energy, decent work & economic growth, industry, innovation & infrastructure, responsible consumption & production and peace, justice & strong institutions. See the graphic to the right.

What are the Sustainable Development Goals?

The UN Sustainable Development Goals (SDGs) were created as a collaborative set of objectives for a better and more sustainable future for all humankind. We like to think of them as the world's to-do list. The 17 SDGs and 169 targets aim to address global social and environmental challenges such as climate change, extreme poverty, access to water and sanitation, promotion of renewable energies and gender inequality. The SDGs provides a framework to identify, measure and align investments that will foster sustainable economic development and growth for future generations.

Sunsuper's Private Capital investments contributing to the SDGs



The use of the SDG logo, including the colour wheel, and icons by an entity does not imply the endorsement of the United Nations of such entity, its products or services, or of its planned activities

Diversity

Sunsuper has been a strong advocate for diversity in the boardroom for several years. We believe that diversity is an essential tenet of good corporate governance and can lead to better investment outcomes by accessing a greater information set, breaking down groupthink, challenging unconscious biases and bringing unique perspectives to the table.

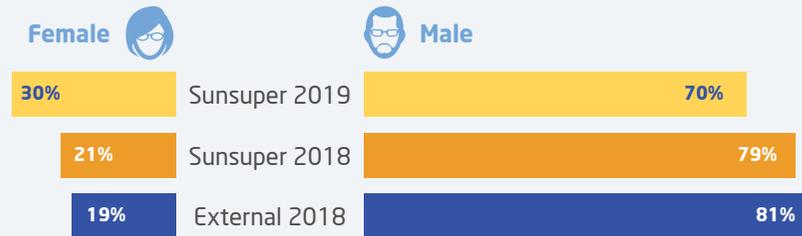
“ *We believe that diversity is an essential tenet of good corporate governance and can lead to better investment outcomes.* ”

Sunsuper views diversity within investment teams as extremely important. 2019 marks the second instalment of the Investment Diversity Dimensions Project. The project involved a review of empirical research on diversity in the workplace, consulting with subject matter experts, and scoping the level of diversity among our investment decision makers both at Sunsuper and within the external fund managers we employ.

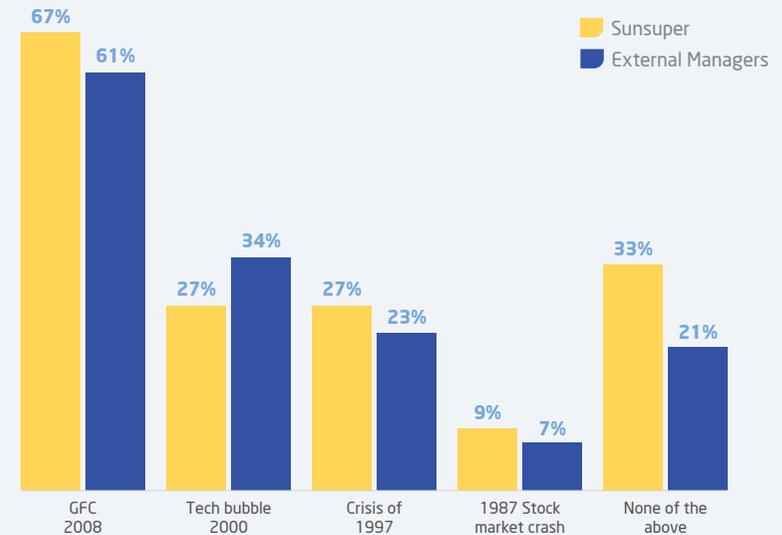
We surveyed our internal investment team in 2019 as well as over 80 of our external managers in 2018, accounting for nearly 2,000 investment professionals, on several facets of diversity: gender, race or cultural background, education, location and experience. Pleasingly, compared to 2018 measurements, gender diversity in our investment team has increased to 30 per cent. Refer to the graphic to the right.

In 2019, the Diversity Dimensions project was expanded with Sunsuper’s internal team completing personality assessments as a proxy to measure cognitive diversity. The results reflect there is no one dominant personality type, highlighting a broad range of cognitive preferences in the investment decision-making team.

Gender profile



Percentage of investment employees with investment experience in a financial crisis



Human rights and modern slavery in supply chains

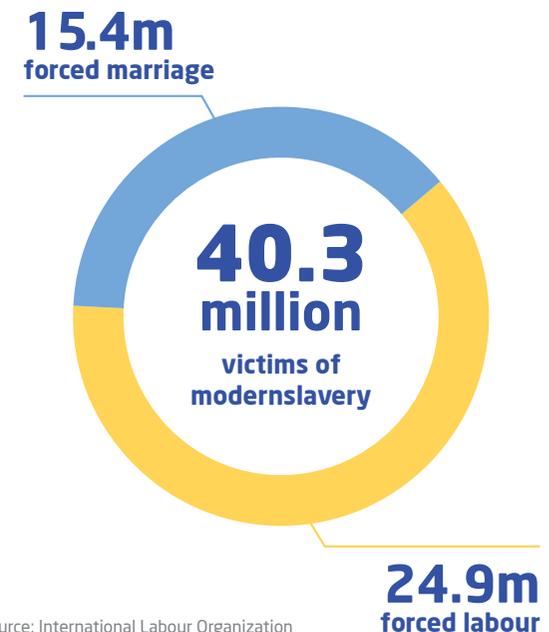
Human rights are squarely an investment issue. At Sunsuper, we recognise strong human-rights practices underpin business relationships with employees, suppliers and customers, resulting in long-term sustainable value. Companies that demonstrate robust, embedded human rights are less likely to face disruption from workforce strikes, legal and regulatory action or consumer boycotts.

Slavery and child labour are illegal in almost all countries today, and yet, despite the international community recognising the gross violation of human rights involved, slavery practices continue to exist to this day, affecting an estimated 40.3 million people globally⁴, of which roughly 15,000 are in Australia⁵.

Modern slavery encompasses any situation of exploitation where a person cannot refuse or leave work because of threats, abuse of power or deception. Examples include forced labour, debt bondage, human trafficking, child slavery and domestic servitude, amongst others. Modern slavery practices are often buried deep in the supply chains of products we consume every day such as clothing and textiles, laptops, computers and mobile phones, coffee, cocoa and seafood. Slavery and exploitative human-rights practices are big business for companies, estimated to generate profits in excess of US \$150 billion per year⁶.

In late 2018, Australia passed the *Modern Slavery Act* (MSA) into legislation requiring large companies to disclose annually how their operations and supply chains may contribute to modern slavery and what they are doing to alleviate these risks. The new legislation will bring corporate supply chains, which are often complex and opaque, into the spotlight and will go a significant way toward eradicating modern slavery. In line with the MSA requirements, Sunsuper has been identified as a reporting entity and will publish our inaugural statement by the 31 December 2020 deadline.

Sunsuper is also a signatory to the Workforce Disclosure Initiative (WDI) whose aim is to improve the quality of jobs in multinational companies' operations and supply chains through increased workforce disclosure. WDI brings together more than 125 global investors, representing \$14 trillion in assets under management, to advocate for greater disclosure via an annual survey. Our belief is that greater transparency will lead to improved workforce equality and human-rights practices, and underpin the long-term sustainability of our investments.



Source: International Labour Organization

4 https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_575479.pdf
5 <https://www.globalslaveryindex.org/2018/findings/country-studies/australia/>
6 https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_243201/lang--en/index.htm

Governance



Good corporate governance

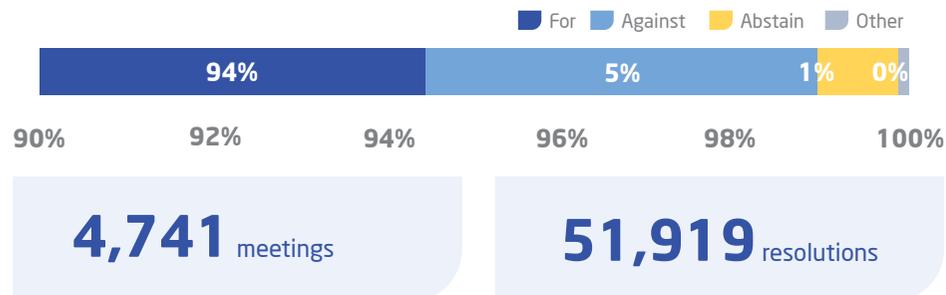
Sunsuper is committed to be an active owner on behalf of our members. We believe that engaging directly with company directors and voting on resolutions at annual general meetings is not only our fiduciary duty, but it can also be a source of value creation by protecting and enhancing shareholder value. We use our influence to encourage companies to manage and disclose risks that relate to a range of environmental, social and governance factors.

Proxy voting

Proxy voting is an important mechanism through which we can communicate our preferences to company boards and influence corporate governance, structure and operations decisions. Sunsuper requires its Australian and International Shares managers to vote in a manner that is consistent with the best interests of members.

In the 12 months to June 2019, Sunsuper voted on 51,919 resolutions at 4,741 meetings. "For" votes represented 94.4 per cent of the total votes cast. "Against" votes represented 4.5 per cent of the total votes cast, and resolutions where we abstained or did not vote represented 0.9 per cent. See the table below. Against votes typically related to directors who lacked independence, or remuneration reports or grants that were poorly constructed or excessive. Abstentions typically related to resolutions on meeting procedures or capital raising in which the manager participated. A full report on our proxy voting record is provided on the Sunsuper public website.

Sunsuper's FY 2019 proxy voting record



Exclusions

Sunsuper views excluded investments as the ultimate sanction and generally views very few industries as inherently uninvestable. As a universal owner, which effectively owns a portion of the total global economy, we prefer to retain our position in investments, as this allows us a seat at the table, to voice our opinions and ultimately drive positive, sustainable outcomes. Where investments have entrenched, material ESG issues as well as poor risk/return characteristics, we enact portfolio-wide exclusions.

What is a universal owner?

Universal owners are large, institutional investors such as superannuation or mutual funds, endowments and foundations, who own securities in a broad cross-section of capital markets effectively owning a slice of the global economy. Typically, they have long investment horizons and are exposed to the positive and negative externalities generated by companies in which they invest. Externalities is an economic term for actions that impose a cost or benefit to someone who did not choose to incur that cost or benefit. Examples of externalities include environmental pollution, wage theft and aggressive tax avoidance.

Tobacco

30 June 2019 marked the sixth anniversary of Sunsuper's tobacco exclusion from Investment Management Agreements within the Fund. The premise of the exclusion was that tobacco manufacturers faced a combination of headwinds, including declining smoking rates, strict government regulation (plain packaging, graphic warnings, limits on advertising) and other regulatory costs. Smoking is highly addictive; there is no safe level of consumption and it is one of the largest preventable causes of death and disease in Australia. We noted the uncertain investment outlook for tobacco companies and determined that engaging with companies to influence and improve environmental, social and governance issues would not yield results in this instance due to the unique

characteristics of tobacco. Given the factors above, our conviction remains that investing in tobacco manufacturers is inconsistent with our mandate to maximise members' financial benefits in retirement.

Cluster munitions

Sunsuper 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.

Child and modern slavery

Sunsuper denounces child and modern slavery in all forms and has sought to identify entities within our investable universe that display the most abhorrent behaviours in this regard. We have identified a small number of companies that we consider uninvestable due to their human-rights practices. Global supply chains are complex and opaque, making identification difficult, and linking lower-level suppliers to our investments a formidable challenge. We expect that the *Modern Slavery Acts* in Australia, the UK and a growing number of other countries will help shine light on modern slavery and human trafficking.

Class actions

Sunsuper relies on boards of directors, management, advisors and ratings agencies to operate effectively, efficiently and according to contractual obligations and the law. We participate in class actions where we suspect that a company has breached corporate regulations or contractual obligations, resulting in financial losses. Participation in class actions seeks to recover investment losses for members and has an ancillary benefit of strengthening the governance framework by holding company management and directors accountable to their obligations.

Typically, Sunsuper will consider participating in class actions in which:

- The breach of law allegations appears to be genuine and have merit.
- Sunsuper has suffered loss, damage or expense from the named defendants.
- There are no litigation costs to Sunsuper and contingent costs are reasonable.
- The class action has reasonable prospects of success.

In 2018, Sunsuper participated in nine class actions and recovered investment losses of \$186,000.



Appendix

Carbon footprint methodology

This first iteration of inventorying the carbon emissions associated with our investments covers listed equity (“shares”) investments only, which represented \$27.9 billion or 49 per cent of Sunsuper’s total funds under management as at 29 June 2018. This approach was chosen as listed equity investments make up a significant portion of Sunsuper’s total funds under management and have the greatest amount of publicly available information with the highest incidence of reporting carbon emissions in line with global standards. Carbon-emissions data availability for other asset classes is nascent and our carbon-calculation coverage may evolve in the future as standardised disclosures increase.

Net negative-dollar positions were not considered in calculating carbon metrics as they would have created a “negative emission”, effectively reducing carbon emissions attributable to Sunsuper’s investment portfolio.

We compare the portfolio holdings to an equivalent dollar value invested in three indices: the S&P/ASX 200 as the benchmark for the Australian Shares portfolio, the MSCI World Investable Markets Index for the Developing Markets portfolio and the MSCI Emerging Markets Investable Markets Index for the Emerging Markets portfolio.

Our carbon footprint methodology is based on Scope 1 and 2 carbon emissions as defined by the Greenhouse Gas (GHG) protocol.

Scope 1 emissions refers to direct emissions from owned or controlled sources.

Scope 2 emissions refers to indirect emissions from the generation of purchase energy.

Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions⁷.

Data sources

Scope 1 and 2 carbon emissions and emissions-intensity data was sourced from MSCI ESG Carbon Metrics. Market capitalisation and revenue data was sourced from Bloomberg as of 29 June 2018.

⁷ https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf

Calculations⁸

The calculations in the table below were sourced from the recommendations of the Task Force on Climate-related Financial Disclosure.

Measure	Definition	Calculation
Total carbon emissions	Measures the absolute greenhouse gas emissions associated with a portfolio, expressed in tCO ₂ equivalent	$= \sum_i \left(\frac{\text{value of investment}}{\text{issuer's market capitalisation}} \times \text{issuer's Scope 1 and Scope 2 GHG emissions} \right)$
Carbon footprint	Measures the total carbon emissions for a portfolio normalised by the market value of the portfolio, expressed in tCO ₂ e/\$M invested	$= \frac{\sum_i \left(\frac{\text{value of investment}}{\text{issuer's market capitalisation}} \times \text{issuer's Scope 1 and Scope 2 GHG emissions} \right)}{\text{portfolio value (\$M)}}$
Weighted average carbon intensity	Measures a portfolio's exposure to carbon-intensive companies, expressed in tCO ₂ e/\$M revenue	$= \sum_i \left(\frac{\text{value of investment}}{\text{portfolio value}} \times \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}}{\text{issuer's \$M revenue}} \right)$
Carbon intensity	Measures the volume of carbon emissions per million dollars of revenue (carbon efficiency of the portfolio) expressed in tCO ₂ e / \$M revenue.	$= \sum_i \left(\frac{\text{value of investment}}{\text{issuer's market capitalisation}} \times \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}}{\text{issuer's \$M revenue}} \right)$

⁸ Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures. June 2017. Pages 43-44. <https://www.fsb-tcfd.org/wp-content/uploads/2017/12/FINAL-TCFD-Annex-Amended-121517.pdf>



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