sunsuper

Responsible Investment Report

2019-20

Centauro Energia *Sunsuper investment since March 2019*

About Sunsuper

In 1987, Sunsuper started as a Queensland-based fund with a genuine desire to give members their most financially comfortable retirement possible. Today, Sunsuper is one of Australia's largest and fastest growing super funds with 1.4 million members (as of 30 June 2020).

While we have increased exponentially in size and expanded our footprint across Australia, our profit-for-members philosophy remains.

Our purpose is to inspire and empower Australians to fulfil their retirement dreams. This powerful statement focuses all that we do at Sunsuper, from setting our strategy to delivering our products and servicing our customers.

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.

Incorporating sustainability considerations in our investment process is an essential part of our duty to protect members' financial interests over the long term. We believe integrating environmental, social and governance factors in the investment process is consistent with better investment outcomes and contributes to a better future for our members.

sunsuper

Contents

Our approach to responsible investing

Responsible investing in action

Message from our Chief Investment Officer

Ian Patrick *Chief Investment Officer*

> It is a pleasure to present to you this report on the efforts, initiatives and achievements of Sunsuper in the realm of responsible investment. Included are an extensive range of investment examples, as we believe these are just as important as the statistics we produce in terms of illustrating to members the nature of our activities.

The global pandemic has affected all of our lives in unique ways – not only did it interrupt our operating rhythm and communications processes, it disrupted markets and the superannuation system more generally. It also brought into focus the social implications of new, rapidly manifesting risks. It was pleasing to see how the companies we invested in reacted – most taking meaningful steps to protect their staff and customers, and changing their approaches as new medical learnings came to light.

The economic consequences of COVID-19 will be felt for years to come. Importantly, Sunsuper is well placed to participate in the recovery, and we are already seeing a range of exciting investment opportunities. In Europe for example, the rebuilding of the economy will focus on building a low-carbon energy system and energy efficient buildings, and the electrification of transport, all of which require capital investment.

At Sunsuper, responsible investment (RI) fits hand-in-glove with our profit-for-members purpose. An unwavering member focus is core to all we do, and the RI function is no exception. By widening our ambit to include risks and opportunities related to long-term environmental and social factors, and by utilising our clout as a shareholder to express our preferences for the people and governance structures we entrust with our members' money, we expect improved risk-adjusted returns for the 1.4 million members (as of 30 June 2020) for whom we work.

While external recognition of the work we do is not a primary objective, it is pleasing to have received an "A" rating from the United Nations Principles for Responsible Investment, reaffirming our progress and direction.

Our work on climate risks and opportunities will take a giant leap forward in the next 12 months, alongside our engagement and other core activities. In addition, as a universal owner with many thousands of underlying investments, we will continually encounter RI challenges; whereby, our Social Licence to Invest and robust investment principles will remain key as we navigate our RI journey.

We expect our investment managers and the companies we invest in to be transparent about their environmental and social impacts. Indeed, we have an extensive engagement program outlined in this report that seeks to lift the transparency of our investments. We acknowledge that our members are entitled to transparency as well, which is why this Responsible Investment report is our most comprehensive to date.

This report shares our latest efforts, initiatives and achievements in responsible investing, along with an extensive range of investment examples, as we believe these are just as important as the statistics we produce in terms of illustrating to members the nature of our activities. We hope this, our second Responsible Investment report inspires confidence in our members of our continued focus on addressing environmental, social and corporate governance challenges and opportunities over the long term.

Ian Patrick
Chief Investment Officer

Sustainability highlights

$70m
allocated to low carbon energy transition investments

>47k
resolutions voted on at 4,076 shareholder annual general meetings

A RATED
across nine categories by Principles for Responsible Investment

ADOPTED
Sunsuper's Climate Action Plan

JOINED
Climate Action 100+

Sunsuper's responsible investment journey

sunsuper

2009

Adopted and released our first Environmental, Social and Governance (ESG) policy

2011

Appointed Head of Responsible Investment, further strengthening efforts to embed ESG considerations in the investment process

2013

- Signatory to UN-supported Principles for Responsible Investment
- Tobacco divested from investment portfolios
- Social Licence to Invest framework adopted to formalise ESG activities
- Begins publishing all proxy votes **on our website**

Signatory of: PRI Principles for Responsible Investment

2015

- Conducts first portfolio climate scenario analysis
- Incorporates ESG factors into each investment recommendation for consideration

2017

Companies exhibiting the most egregious labour practices in relation to forced and child labour were excluded from the portfolio

2018

Expanded the responsible investment team with the addition of Analyst, Listed Equities and Responsible Investment

2019

- Invested in first green bond mandate
- Expanded the responsible investment team with the addition of a portfolio analyst
- First impact investing mandate awarded

A proud participant of: Climate Action 100+

2020

- Joined Climate Action 100+, expanding our climate change engagement agenda to influence globally significant greenhouse gas emitters
- Investment Committee approved inaugural Climate Action Plan for Sunsuper's investment portfolio
- $50m allocated to a low-carbon energy transition fund and a further $20m allocated to a solar energy platform

Our approach to responsible investing

Ellisa *Sunsuper Member*

What *Responsible Investing* means to Sunsuper

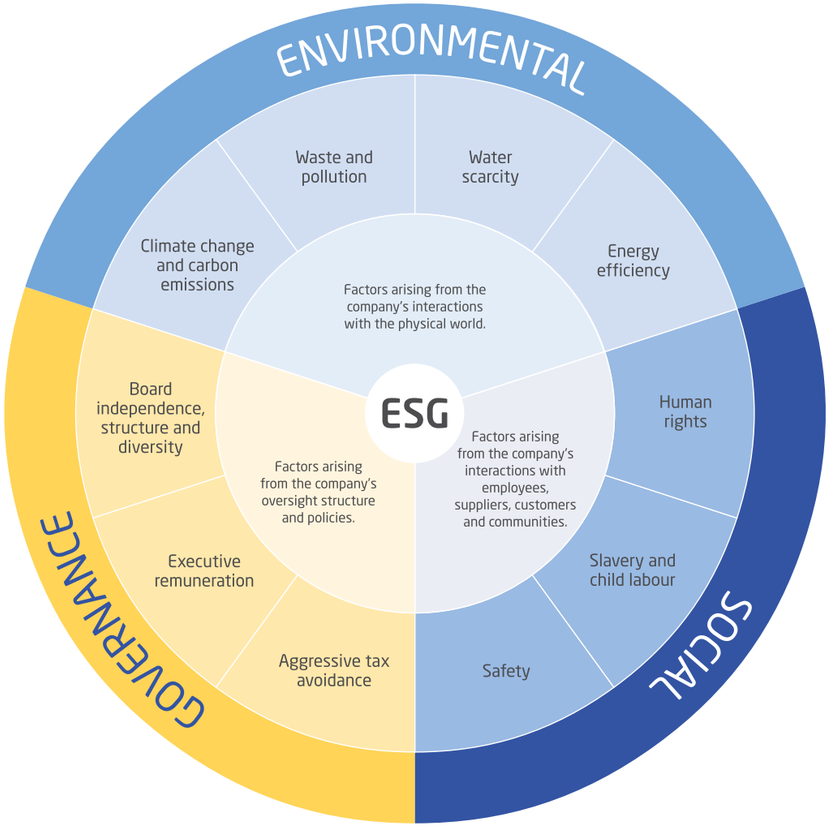
Responsible investing considers environmental, social and governance factors in the research, analysis, selection and monitoring of investments to manage risk and ensure long-term sustainability of returns.

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

In terms of our fiduciary duty to members, we aim to maximise members' real, long-term investment returns without taking undue risk. To best protect and manage investments for the long-term, we consider ESG risks, impacts and opportunities in our investment decision-making process.

We know 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 myriad of factors to consider in responsible investing. Some examples include:



Sunsuper's Social Licence to Invest

One of the challenges we face as an investment team is the plethora of issues that could fall under social, environmental and governance themes. Some topics may be important to a small subset of our members, but not material in an investment sense. On others, a debate may rage 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 to 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.

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 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 (AGMs), 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/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.

Sunsuper and the Principles for Responsible Investment

Sunsuper is a signatory to the United Nations-supported Principles for Responsible Investment (PRI). The PRI is a set of six voluntary aspirational principles that align well with our approach to managing ESG issues within our investment portfolio.

The principles are:

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

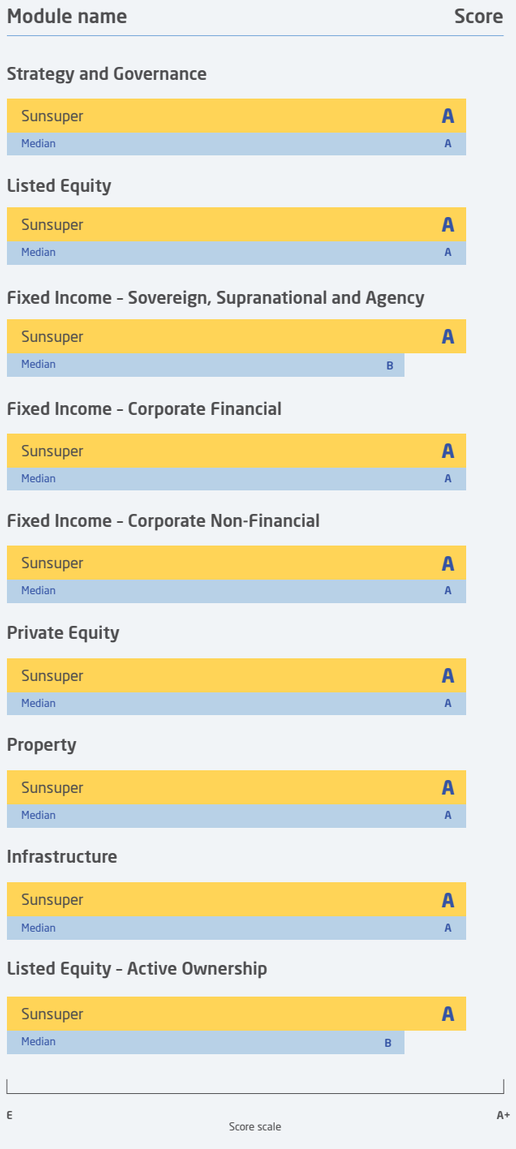
Sunsuper is committed to providing transparency into our responsible investing approach and activities. All signatories are required to participate in an annual survey conducted by PRI across a range of asset-specific modules. The PRI assesses signatories' responses and assigns a performance band score from A+ to E in each module.

In 2020, we achieved our highest rating to date, receiving "A" ratings across all nine modules Sunsuper reported on. The 2020 assessment outcome represents an improvement across seven of these nine indicator categories, recognising our commitment and continuous evolution of RI at Sunsuper.

Signatory of:

PRI Principles for Responsible Investment

Sunsuper 2020 PRI assessment results



Active ownership

As global investors, we are active owners on behalf of our members. We engage directly with our investee companies and vote on resolutions at annual general meetings.

We use our influence to encourage companies to manage and disclose risks that relate to a range of sustainability factors such as workplace health and safety, diversity, climate change mitigation and adaptation, and good corporate governance. We believe this is an essential component of our fiduciary duty to members and can also protect and enhance shareholder value.

Engagement

Engagement is the central pillar of Sunsuper's RI approach. We believe that engaging constructively with our investee firms can have a positive, long-term impact on companies' performance and continued viability.

There are three engagement methods through which Sunsuper can seek to positively influence ESG practices in the companies in which we invest: direct, collaborative and policy engagements. Sunsuper's engagement program currently focuses predominantly on direct and collaborative engagement activities and we are beginning to explore policy advocacy opportunities.

Direct

Direct engagement involves a dialogue between Sunsuper and our appointed investment managers, investee companies, asset consultants and other service providers. Engagement is typically conducted behind closed doors where views can be expressed candidly, in the spirit of improving sustainability practices.

Collaborative

Collaborative engagement occurs when a group of shareholders (such as super funds) come together to open a dialogue with companies on key ESG issues. By speaking with a unified voice, investors can magnify the impact of their engagement efforts on issues of mutual concern.

Policy

Policy engagement entails open and transparent dialogue with legislators and regulators to support effective policy frameworks that strengthen ESG integration and the stability and integrity of the financial sector, and deliver wider economic benefits.

Direct engagement

Sunsuper's direct engagement program seeks to build trusting, long-term relationships with our investee companies and supports continuous improvement and corporate accountability for material sustainability topics. Public and private companies in which we invest are prioritised for engagement based on the size of our shareholding, our ability to influence key leadership personnel and the materiality of ESG issues. In addition, we strongly encourage our appointed external investment managers to engage directly with investee companies, particularly where Sunsuper's ability to engage faces obstacles, for instance, language barriers, time zones and familiarity with local norms.

In 2019-20, Sunsuper engaged directly with companies representing 41per cent of the ASX 300 by market capitalisation to discuss business impacts from COVID-19, climate change, diversity, labour practices, safety, heritage protection, remuneration and corporate governance, among a range of other topics.

Case studies:

Direct engagement

Climate change and policy advocacy

Sunsuper participated in several collaborative engagements with a multi-national mining conglomerate's senior executives and institutional shareholders to discuss the perceived differences between their stated climate and energy policy and those of their industry associations. Anti-Paris Agreement lobbying and climate change denial is endemic among carbon-intensive corporates and is one of the most acute impediments to certainty on government policy and a smooth transition to a low-carbon economy. We are supportive of the efforts the company has undertaken in recent years to develop and enhance its industry-association review process; however, we remain concerned about its continued participation in industry associations that have a track record of lobbying against decarbonisation and ambitious climate action. To express our position on this key issue, we voted in support of the shareholder resolution on departing industry associations whose lobbying activities are inconsistent with the goals of the Paris Agreement.

Wage underpayments

Sunsuper met with directors of a major Australian retailer to discuss wage underpayments of salaried workers across that group's businesses. The discussion provided an opportunity to understand the actions the company was taking to rectify payroll processes and remediate employee back wages and superannuation. While we were pleased by the actions the company was taking to remediate employee compensation, we were concerned about the company's approach to demonstrating accountability for consequences and did not support the executive remuneration resolution.

Board independence

In advance of an Australian consumer retailer's AGM, we engaged with the company's senior executives and directors to discuss our concerns about the composition of the board and lack of sufficient board independence. At the time of the AGM, this firm had nine out of ten directors that Sunsuper considered to be insiders or affiliated parties. In line with the ASX Corporate Governance Principles and Recommendations[1], Sunsuper believes effective boards should be comprised of a majority of independent directors to challenge management, hold them accountable and best represent the interests of all shareholders as opposed to individual security holders or groups. We expressed our support for board director renewal to strengthen the objectivity and independence of the board and enhance its ability to perform its oversight role. As such, we supported the independent director nomination and opposed the re-election of two non-independent directors.

1 https://www.asx.com.au/documents/regulation/cgc-principles-and-recommendations-fourth-edn.pdf

Collaborative engagement

There are circumstances in which it is preferable for Sunsuper to leverage collaborative engagement rather than direct engagement. While Sunsuper holds large positions in domestic Australian companies, we often hold smaller positions in global firms, which can result in less influence and reduced access to management and boards.

To strengthen our existing climate change engagement agenda, Sunsuper signed up to Climate Action 100+ in April 2020. As a signatory, Sunsuper will be participating in direct dialogue with portfolio companies to strengthen their climate disclosures, take action to reduce greenhouse gas (GHG) emissions across the value chain and model their business plans against a range of possible policy and warming scenarios.

Climate Action 100+
Global Investors Driving Business Transition

What is Climate Action 100+?

Climate Action100+ is a global investor initiative to ensure the world's most significant greenhouse gas emitters take strong action to align their business models with the goal of the Paris Agreement to keep global warming well-below 2°C above pre-industrial levels and pursue efforts to limit warming to 1.5°C. The initiative focusses on productive dialogue with 161 companies who collectively represent over 80 per cent of global industrial GHG emissions. The initiative has garnered support from more than 450 investors who represent more than US$40 trillion in assets under management. Since the launch of Climate Action100+ in December 2017, numerous significant GHG emitters have expanded their climate action ambitions. Key progress includes[2]:

77%
of companies have established board-level oversight of climate change policy

70%
of companies have set long-term targets for reducing GHG emissions

40%
of companies publicly disclose climate scenario analysis.

2 http://www.climateaction100.org/

Proxy voting

Proxy voting is an important mechanism through which we can communicate our positions to company boards and influence corporate governance, structure and operational decisions. Sunsuper requires its Australian and International Shares managers to vote in a manner that is consistent with the best interests of members. Furthermore, Sunsuper actively monitors and considers resolutions put forward at prominent ASX-listed company AGMs.

Our approach to exercising our voting rights is pragmatic and considers local laws, corporate governance best practice by geography and unique circumstances of the company. We recognise the importance of participating in shareholder votes and strive to vote by proxy at shareholder meetings organised by companies in which we invest.

In the 12 months to June 2020, Sunsuper voted on 47,065 resolutions at 4,076 meetings. Votes in support of management represented 95.4 per cent of the total, votes against represented 3.8 per cent and abstentions represented 0.7 per cent. A full report on our proxy voting record is provided on **our website**.

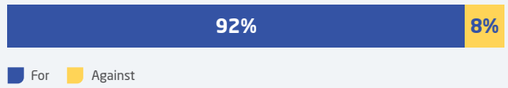
Case studies:

Proxy voting

Executive remuneration

Executive remuneration continues to warrant scrutiny and is a key focus of Sunsuper's engagement agenda and proxy voting activities. The primary purpose of executive remuneration is to attract, motivate and retain highly skilled executives to deliver long-term sustainable growth of the company or division they lead. We expect remuneration frameworks to align executive pay with performance and continue to advocate for increased disclosure around the incentive structure, specific targets to incentivise management and annual outcomes assessed by the board. In 2019-20, Sunsuper voted against 402 executive remuneration resolutions, representing 8 per cent of all executive remuneration proposals.

Sunsuper's votes on executive remuneration:



Example:

Notable executive remuneration resolution:

AMP Ltd

AGM date:

08/05/2020

Proposal:

Approval to adopt the remuneration report for the financial year ended December 31 2019

Sunsuper vote:

AGAINST

Rationale:

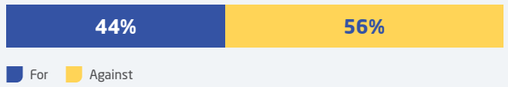
We view the value of equity performance rights granted to key management personnel in 2019 as excessive and are further concerned about the unchallenging vesting hurdles where AMP performance below industry peers would result in equity awards vesting.

Climate-related shareholder resolutions

In 2019-20, Sunsuper supported 44 per cent of climate-related shareholder resolutions. We did not support resolutions relating to setting binding targets on scope three emissions or requests for transition planning disclosure where we felt the company had a robust and publicly disclosed plan or the resolutions were overly prescriptive.

Our expectations are that companies will put comprehensive climate targets in place, and we are increasingly supporting shareholder resolutions calling for ambitious climate action where companies plans are insufficient.

Sunsuper's votes on climate-related shareholder resolutions:



Example:

Notable climate-related shareholder resolution:

Santos Ltd

AGM date:

03/04/2020

Proposal:

Shareholder proposal regarding alignment with the Paris Agreement

Sunsuper vote:

FOR

Rationale:

We were concerned that the climate targets established in Santos' 2019 Climate Change Report were not aligned with the company's aspirational target to achieve net zero operational emissions by 2050. More ambitious action is warranted to assure long term investors that Santos will be able to deliver on their decarbonisation targets.

Responsible investing in action

SafeHost *Sunsuper Investment since November 2019*

Climate change

Climate change remains one of the most significant systemic risks of our time, with widespread impacts on the natural environment, economic policy, technological developments and global society. The physical and transition impacts of climate change permeate across asset classes, geographies and industries and will continue to emerge for decades. Sunsuper views climate change as a long-term thematic that presents material investment risks and opportunities.

In line with our responsibility to protect members' retirement outcomes, we are committed to ensuring Sunsuper's portfolio is resilient during the transition to a low-carbon economy.

With a number of significant initiatives underway in 2020, we will continue to provide transparency in our approach and activities to manage climate change investment risks and opportunities as part of our fiduciary duty to members.

Climate-related investment risks

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 surges, 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.

Climate science and the Paris Agreement

The best available climate science today is unambiguous – humans are a key contributor to global warming, primarily driven by fossil fuel combustion for energy, electricity, heating and transport. Climate change is not a distant challenge for future generations to endure. We are already seeing the effects on our planet, including the catastrophic 2020 summer bushfires and nine of the ten hottest years on record in Australia all occurring since 2005.[3]

In 2015, the landmark Paris Agreement was reached to strengthen the global response to combat climate change by limiting global warming to well below 2°C and pursuing efforts to limit warming to 1.5°C above pre-industrial era levels to prevent catastrophic and irreversible damage. Since then, governments have increasingly adopted decarbonisation targets to facilitate the global transition to a low-carbon future.

Climate change and COVID-19

While the COVID-19 pandemic and government efforts to halt the spread of the virus resulted in severe disruptions to economic activity, it also provided a temporary respite for the global environment. Widespread government policies introduced from March 2020 restricting movement and economic activities drove drastic changes in transport and consumption patterns, resulting in lower carbon dioxide and other greenhouse gas emissions. Daily GHG emissions are estimated to have declined by 17 per cent[4] compared to 2019 during April 2020. Despite the significant emissions reductions in 2020, our view is that these changes are temporary and will likely reverse once economies begin to recover.

As evidenced in the aftermath of the 2008-09 Global Financial Crisis, GHG emissions have historically rebounded strongly post-recession due to government stimulus packages promoting increased economic activity reliant on carbon-intensive energy sources. The long-term impacts of COVID-19 on climate change depends on two critical factors: how long economic activity and transport is restricted for and governments adopting green recovery policies that accelerate the transition, to a low carbon economy.

Our action on climate change

In June 2020, our Investment Committee approved the Sunsuper Climate Action Plan (CAP) that pursues better measurement, management and mitigation of climate risk within our investment portfolio. Our plan is centred around targeting a net zero emissions investment portfolio by 2050, which is aligned with the Paris Agreement's goal of limiting global warming to 1.5°C. In order to achieve this target, we've established 27 actions across the total portfolio to inform the portfolio decarbonisation pathway.

3 Bureau of Meterology: http://www.bom.gov.au/climate/current/annual/aus/2019/#tabs=Overview

4 Nature Climate Change; Le Quéré, C., Jackson, R.B., Jones, M.W. et al. Temporary reduction in daily global CO2 emissions during the COVID-19 forced confinement. Nat. Clim. Chang. 10, 647-653 (2020). https://doi.org/10.1038/s41558-020-0797-x

Investing in the energy transition:

EIG Energy Transition Fund

Climate change, and the related energy transition, also provide significant investment opportunities for long-term investors. The energy transition refers to the structural shift of the global energy sector from predominantly fossil-fuel-based sources to low-carbon alternatives, such as hydro, solar and wind generation, by the second half of this century. Decarbonisation of the energy sector requires urgent action and is a critical requirement for economy-wide decarbonisation and, ultimately, achieving the goals of the Paris Agreement.

In 2020, Sunsuper invested $50 million in EIG's Energy Transition Fund, which is targeting investment in zero-carbon renewable energy and natural gas projects. The fund's first investment, IBV, is a German solar business with 2 gigawatts peak (GWp) installed electricity capacity. Solar is one of the most cost-competitive and established alternatives to conventional power generation sources with the advantage of a mature technology profile, high levels of standardisation, maintenance simplicity and high production predictability. Furthermore, solar is expected to grow from 2 per cent in 2019 to approximately 22 per cent of total electricity output by 2050.[5]

5 BloombergNEF New Energy Outlook 2019: https://about.bnef.com/new-energy-outlook/

Carbon footprint

Carbon regulation, or the risk that governments impose a tax or cap on carbon, is the most identifiable climate-transition risk for investors today. Companies that produce carbon emissions from their operations are likely to be impacted by future carbon regulation, which may negatively impact their earnings, and therefore returns to Sunsuper members.

In an effort to understand our overall exposure to carbon regulation and the investments that are most at risk, we measure the carbon emissions and intensity of our listed shares portfolio each year.

	Portfolio	Benchmark
Weighted Average Carbon Intensity (tCO_2e/$m revenue)	257	241
Absolute Emissions (tCO_2e)	4,573,340	3,748,598
Carbon Footprint (tCO_2e/$m invested)	135	110

As of 30 June 2019. Appendix: methodology

ESG Ratings and data provided by:

MSCI

MSCI ESG Research LLC

The above statistics suggest that the listed equity portfolio's exposure to carbon policy risk was somewhat higher than the broader stock market in June 2019. It is likely that national governments may institute or increase carbon taxes or trading schemes, and that this risk is likely to become more material. The impact of the pandemic on both economic growth and carbon emissions of the portfolio is estimated to show a moderation of these carbon metrics in 2020, however the pace of global decarbonisation has not been as rapid as necessary to keep global warming to well below 2°C, and therefore the above statistics need to improve (fall) into the future.

More information on the actions Sunsuper is taking to mitigate and adapt to climate change is available in the **Sustainability of real assets** and **Active ownership** sections of this report.

> From the investor perspective, we expect carbon regulation to continue to ramp up over time and we recognise that prudently managing our exposure to carbon intensive assets is an important part of our responsibility to prioritise members' financial interests.

Carbon regulation

Carbon pricing plays a critical role in supporting the economy-wide decarbonisation that will be required to achieve the Paris Agreement goals. There are several different approaches to "putting a price on carbon"; however, they are all grounded in the same principles. Carbon regulation attempts to capture the external costs of emitting GHG emissions that the public absorbs in other ways (for instance, higher prices on fresh produce due to lower crop yields from extreme heat or healthcare costs from air pollution) and transfer them back to their original source through a price on carbon. By doing so, the burden is shifted back to those entities responsible for emissions and creates an economic incentive to decarbonise.

As of May 2020, approximately 22 per cent of global GHG emissions are covered by carbon-pricing initiatives.[6] Unfortunately, despite the increase in carbon-price mechanisms around the world, the implicit and explicit carbon prices remain substantially lower than those needed to be consistent with the Paris Agreement and net zero emissions by 2050.

From the investor perspective, we expect carbon regulation to continue to ramp up over time and we recognise that prudently managing our exposure to carbon-intensive assets is an important part of our responsibility to prioritise members' financial interests.

Using bonds to finance climate and social solutions

2020 marked the start of a crucial decade for sustainable finance. The transition to a low-carbon economy and achieving the United Nations-backed Sustainable Development Goals will both require trillions of dollars of capital investment over the next ten years and beyond. Global bond markets, through green, social and sustainability bonds, can play a pivotal role to drive capital from responsible investors to finance these global goals.

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. Similarly, social and sustainability bonds are a type of fixed income instrument where the proceeds are used to invest in projects with positive social impact. Through investing in green, social and sustainability bonds, Sunsuper is able to help finance positive environmental or social outcomes without compromising financial returns for members.

> 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.

Within our Fixed Income asset class, Sunsuper has appointed Affirmative Investment Management to manage a Global Impact Bond Strategy. 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 impact-bond investment approach that embeds sustainability criteria into the core evaluation process.

African Development Bank Fight COVID-19 Bond

Within our diversified options, Sunsuper owns Fight COVID-19 Social Bonds issued by the African Development Bank (AfDB). The bonds help finance the global efforts to mitigate the wide-ranging effects of the COVID-19 pandemic. The proceeds of these bonds must only be used for projects that involve the response to COVID-19 such as building improved access to essential services and healthcare. In addition, proceeds can be used for employment generation, targeting vulnerable groups such as those living below the poverty line, migrants, displaced persons and marginalised populations. In addition, AfDB committed to annual reporting, including detailed project information available publicly on its website.

The AfDB is a leading supranational supporting Africa's economies and livelihoods. These bonds were included in the portfolio because they meet the required risk and return criteria; however, we also measure the social impact that they have. This Bond is AAA rated by Standard & Poors (S&P) and Moody's.

6 World Bank. 2020. State and Trends of Carbon Pricing 2020. Washington, DC: World Bank. © World Bank. https://openknowledge.worldbank.org/handle/10986/33809

Investing in sustainable real assets

A significant proportion of Sunsuper's portfolio is invested in alternative asset classes such as property, infrastructure, private equity and private debt strategies. We hold these assets because we expect them to deliver strong, long-term returns while reducing our members' exposure to share market volatility – particularly in times of market distress.

Real assets, such as office buildings, shopping centres, airports, seaports, power generators and other utilities, have a critical role to play in the smooth functioning of society. Aside from their strategic importance and financial attractiveness, Sunsuper ensures that its investments in real estate and infrastructure are environmentally and socially sustainable.

Property

Sunsuper expects green and sustainable buildings to provide superior long-term returns and to mitigate the downside risk of vacancy and obsolescence as the trend of tenants demanding sustainable premises continues to grow. In collaboration with our asset managers and operating partners, we assess our property assets' ESG characteristics to strengthen operating efficiencies, maintain the competitive positioning of our investments and enhance their marketability for the eventual sale of real estate investments.

While the real estate industry continues to adopt ESG best practices across sub-sectors, the office sector is particularly sensitive to sustainability factors and operating efficiencies. Flagship tenants often seek environmentally friendly buildings for their corporate headquarters as the premises reflect the organisation's commitment to corporate social responsibility standards, limit operating costs and meet employee workplace expectations. In addition, government tenants have minimum standards, with Australian federal government agencies demanding minimum 4.5-star energy ratings on the buildings they occupy. Because environmental factors are key considerations for prospective tenants, office buildings with higher environmental standards are likely to have lower vacancy rates, attract higher rents, and ultimately deliver higher returns to Sunsuper members.

What are the NABERS ratings?

The National Australian Built Environmental Rating System (NABERS) is a national rating system that measures the environmental performance of Australian real estate buildings. The assessment focuses on energy efficiency, water usage, waste management, indoor environmental quality and the impact of the building on the environment. Buildings consume 40 per cent of global energy, emit 40 per cent of global carbon emissions and use 20 per cent of available drinking water.[7] Understanding the key drivers of a building's impact, and implementing efficiency initiatives to reduce consumption, is imperative to contribute to a healthy and sustainable environment.

Spotlight on office investment:

Milton Green

Sunsuper is a co-owner of Milton Green, a premier office park spanning more than four hectares across six buildings on the fringe of Brisbane's central business district. As a long-term owner and corporate tenant within Milton Green, Sunsuper has a long history of sustainability and wellness enhancements at this site. End-of-trip facilities include 200 bicycle parking spaces, 200 lockers and 21 showers across the precinct, encouraging employees to prioritise health and wellness while providing an option to reduce the carbon footprint of their daily commute. Roof solar panels have been installed with an estimated combined annual generation capacity of approximately 251,997 kWh – the equivalent of avoiding 201 tonnes of carbon dioxide emissions. Further, Milton Green continues to prioritise water efficiency, targeting a 4-star NABERS water rating across all six properties.

Spotlight on office investment:

South Eveleigh

Sunsuper owns a 33 per cent stake in South Eveleigh (formerly Australian Technology Park) on the periphery of the Sydney central business district, home of the new corporate offices of Commonwealth Bank of Australia. The South Eveleigh precinct is an urban renewal project, converting 13 hectares of land, including the old locomotive workshops adjacent to Redfern railway station, into a thriving office and retail district for 10,000 workers. The campus includes 93,000m2 of commercial office space, 2,800m2 of retail and gym space and 1,400m2 of childcare facilities and has been awarded a 6-star Green Star rating by the Green Building Council of Australia. Further, the development includes solar panels, electric vehicle charging stations and is targeting a 5-star NABERS energy and 4-star NABERS water rating.

7 https://www.nabers.gov.au/about/what-nabers

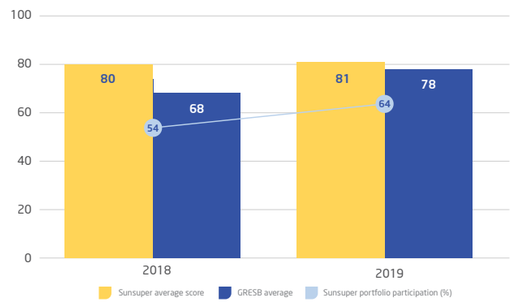
Measuring our sustainability performance against global peers

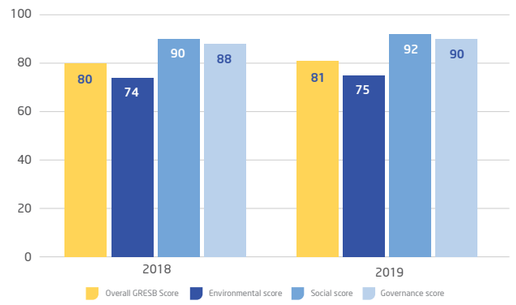
In 2019, we conducted our second annual assessment of the sustainability performance of our property portfolio against global peers using the GRESB assessment framework (formerly known as Global Real Estate Sustainability Benchmark). GRESB is the preeminent benchmark for sustainability in real-estate and infrastructure investments across the globe, assessing real-asset performance against eight sustainability aspects and more than 70 indicators.

In 2019, we outperformed the GRESB global average and maintained our weighted average 4-star GRESB rating for our property portfolio, while participation across our portfolio investments increased by ten per cent, from 54 per cent in 2018 to 64 per cent in 2019.

Looking forward, we remain committed to increasing sustainability performance and transparency within our property investments and will continue to engage with our investment managers to drive reductions in electricity consumption, GHG emissions, and waste and water consumption at our assets.

Sunsuper property portfolio GRESB score





Spotlight on data centres:

SafeHost

Within the Property asset class, Sunsuper has invested in SafeHost, a data centre operator in Switzerland. Historically regarded at the exotic end of the property spectrum, data centres are an increasingly attractive investment opportunity because of the bond-like investment returns and critical internet-cloud infrastructure service they provide. The extraordinary growth in global data consumption, device connectivity and public-cloud data storage are continuing to drive the demand for data centre real estate.

Sunsuper's investment in SafeHost is focused on operating in a sustainable fashion, employing "free cooling" systems that use the naturally cold, external air to lower energy demand and sourcing 100 per cent of electricity from renewable, hydraulic power. In addition, the newest data-centre location has installed electric-vehicle charging stations, solar roof panels and has a vegetation-covered roof to absorb rainwater.

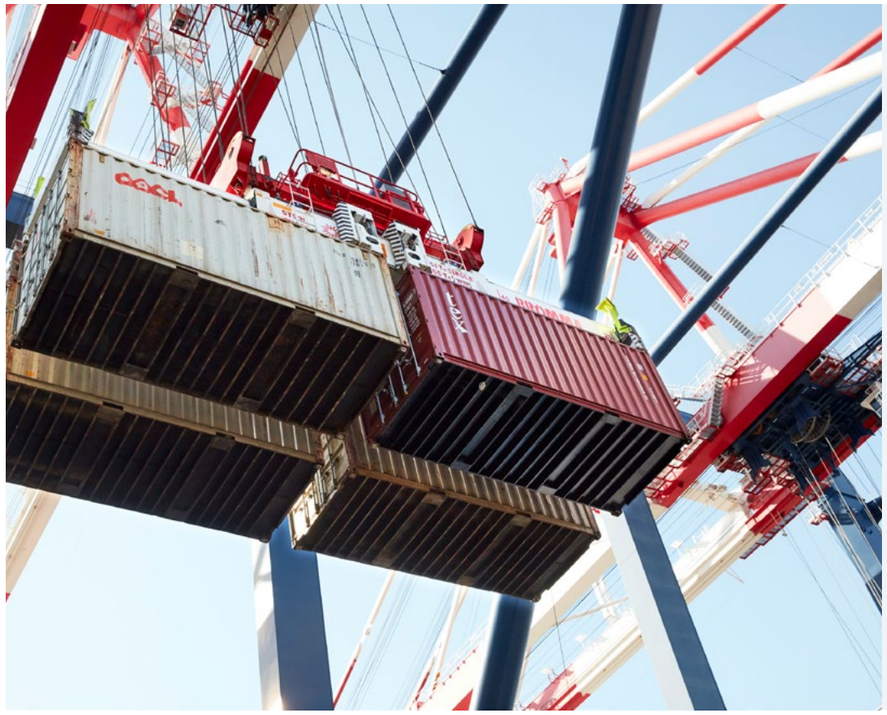
Infrastructure

The amount of renewable power infrastructure in the Sunsuper portfolio is lower than desired. This is not for philosophical reasons – we expect renewables to be a large and growing component of the world's energy mix over the next decade and beyond, and we are regularly assessing new green deals. However, the investment hurdles are currently challenging.

In Australia, the lack of a national energy policy that addresses climate change increases uncertainty. Globally, where policy is more developed, institutional investors' demand for renewable assets has surged – driving prices so high that the future returns have contracted. Further, we like to have a predictable, stable income from our infrastructure assets. Renewables have this characteristic when customers agree to purchase the power – and it is often a contract that runs for five or ten years. However, beyond that timeframe, we have no good way of predicting energy prices – they could be double, or they could be near zero. This compounds our uncertainty.

Despite these challenges, we have successfully been able to find renewable assets that fit into the portfolio, and we are still actively looking to increase our exposure. In our search for sustainable, low-carbon infrastructure assets, members' retirement outcomes are paramount.

> *In our search for sustainable, low-carbon infrastructure assets, members' retirement outcomes are paramount.*



Investing in one of the world's greenest shipping container terminals:

Long Beach Container Terminal

In late 2019, Sunsuper invested $155 million in Long Beach Container Terminal (LBCT) in Los Angeles, California. LBCT is part of the Los Angeles/Long Beach port complex, which is the largest cargo port in North America, handling approximately 35 per cent of all US and Canadian container volumes.

The port complex is a key gateway for trade between North America and Asia and has a reputation as one of the most environmentally friendly container terminals in the world through automation, electric fleet, shore power and rail capacity. In line with California laws, LBCT is investing in terminal decarbonisation initiatives, including zero-emission equipment, electric-stacking cranes and solar panels on carports to meet their Clean Air Action Plan of targeting net zero carbon emissions by 2030.

Investing in the winds of change:

Centauro Energia

Through our investment with Macquarie Infrastructure Partners Fund IV, Sunsuper has invested in Centauro Energia, a renewable-energy generation platform in Mexico comprised of solar and wind turbine assets with a total installed capacity of 419MW, which is almost enough to power the equivalent of every dwelling on the Gold Coast. To date, Centauro Energia has acquired five solar and two wind-farm projects providing geographic and technological diversification through renewable-energy projects that provide power to different nodes of the Mexican electricity grid. The wind-farm investments are underpinned by medium and long-term power purchase agreements (PPAs) to contract 100 per cent of their energy generation, which provides us certainty of cash flows.

Aviation industry and sustainability

Aviation is important for global business, generating economic growth, creating jobs, and efficiently facilitating international tourism and trade. However, these societal and economic benefits undoubtedly come at a great environmental cost. The global aviation industry is responsible for approximately 2 per cent of all human-made carbon dioxide (CO_2) emissions.[8] Widespread concern about the effects of global warming and their impact on infrastructure assets are increasingly prevalent. Left unaddressed and unmanaged by investors, aviation assets potentially face a myriad of economically material sustainability risks such as volatile energy prices, regulation on carbon emissions and jet fuels, sea-level rise, hazardous weather and storm patterns. As a long-term owner of strategic airport and aviation-related assets, Sunsuper is committed to ensuring our assets are sustainably managed for the future, resilient to the physical and transition risks of climate change and minimising their environmental impact.

> Sunsuper is committed to ensuring our assets are sustainably managed for the future, resilient to the physical and transition risks of climate change and minimising their environmental impact.

GRESB infrastructure

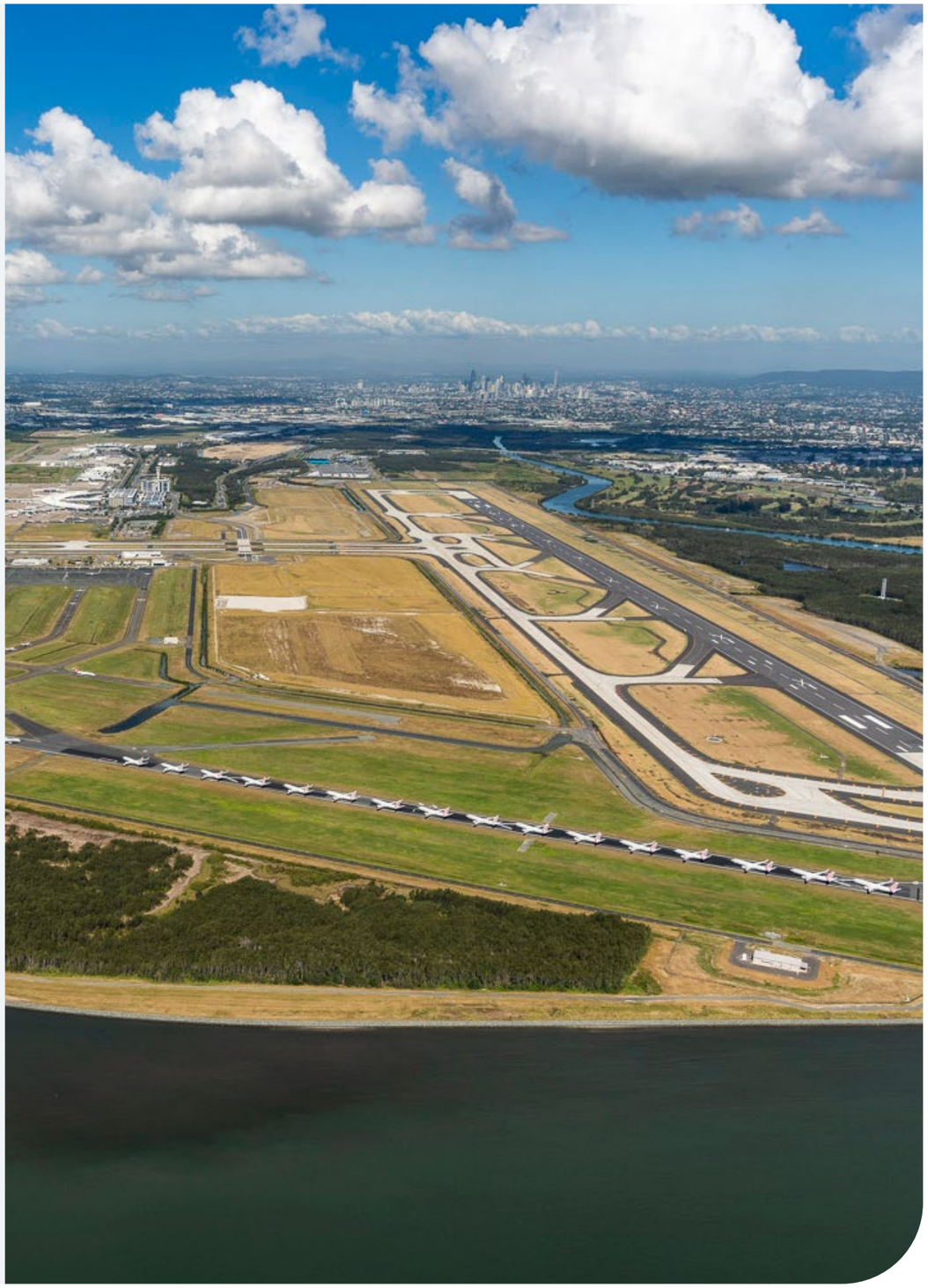
Sunsuper's infrastructure assets and funds continue to improve their ESG credentials and transparency in the annual GRESB infrastructure survey. While the GRESB property benchmark counterpart is reasonably well established, the GRESB Infrastructure assessment is relatively new and we are continuing to encourage our fund managers and asset companies to disclose their ESG initiatives through this means. Pleasingly, the infrastructure portfolio participation rate improved to 52.9 per cent in 2019-20. Sunsuper's weighted average score of infrastructure assets was 61.9/100, well above the global GRESB average of 45/100.

Spotlight on:

Brisbane Airport Corporation

Since 1997, Sunsuper has held a stake in Brisbane Airport Corporation (BAC), the operating company of Australia's third busiest airport. Over the 23 years, Sunsuper has been invested in BAC, it has not only been a strong contributor of returns to members, but the airport's sustainability journey has progressed in leaps and bounds. In 2019, a 6 MW solar project was installed, resulting in operational efficiencies and avoided emissions proportionate to 12 per cent of BAC's total annual energy consumption. Further, Brisbane Airport has publicly committed to the following 2030 sustainability targets:

- 50 per cent reduction of scope 1 and 2 emissions from a 2017 baseline.
- 30 per cent reduction in terminal energy use.
- 40 per cent onsite renewable energy consumption.
- 30 per cent reduction in terminal landfill waste.
- 30 per cent reduction in terminal water use.
- 50 per cent recycled water use.



8 https://www.atag.org/facts-figures.html

Private Capital alignment with the Sustainable Development Goals

As described by the United Nations, the 17 Sustainable Development Goals (SDGs) are "the blueprint to achieve a better and more sustainable future for all". They comprise the goals of poverty eradication, water accessibility and climate action, among others, to be achieved by 2030. These 17 goals, and the 169 targets that underpin them, require global coordination and investment from public and private sources.

In 2018-19, we assessed our Private Capital asset class for impact-aligned investments: companies within the portfolio that are invested primarily for returns but monitored for positive social or environmental impact. In 2019-20, we repeated the exercise with the aim of gaining a deeper understanding of how some of our incumbent investments align with the SDGs.

SDG	SDG Targets*		%
3 GOOD HEALTH AND WELL-BEING	3.3*: Combat communicable diseases 3.4*: Reduce premature mortality from non-communicable diseases 3.5*: Strengthen the prevention and treatment of substance abuse 3.6*: Halve the number of traffic deaths	3.8*: Achieve universal health cover 3.b*: Support the r&d of and access to medicine for all 3.c:* Increase health financing and the recruitment, development, training and retention of the health workforce in developing countries	2.0%
4 QUALITY EDUCATION	4.1: By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes	4.4: By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship	0.3%
7 AFFORDABLE AND CLEAN ENERGY	7.2: By 2030, increase substantially the share of renewable energy in the global energy mix 7.3: By 2030, double the global rate of improvement in energy efficiency		3.0%
8 DECENT WORK AND ECONOMIC GROWTH	8.2*: Higher levels of Economic Productivity 8.5*: By 2030, achieve full and productive employment and decent work for all 8.8*: Protect Labour Rights and promote safe and secure working environments for all 8.10*: Expand access to Financial Services for all		1.9%
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	9.1.* Sustainable infrastructure and industries supporting economic development 9.4.* Upgrade infrastructure and industries for a sustainable and resilient future 9.a* Infrastructure development in African countries and landlocked, less developed and small island countries 9.c* Access to information and communication technology in less developed countries		0.6%
11 SUSTAINABLE CITIES AND COMMUNITIES	11.6: By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management		0.1%
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	12.5: By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse		0.4%
13 CLIMATE ACTION	13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries		0.6%
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	16.5: Substantially reduce corruption and bribery in all their forms		0.5%

Percentage of Sunsuper's Private Capital investments in companies that have products/services aligned with goal

*This description has been truncated from the original SDG description

While some of the investments in our other asset classes may be highly aligned with the SDGs, such as Centauro Energia and the African Development Bank's "Fight COVID-19" bond, our impact-alignment measurement presented here solely considers investments in the Private Capital asset class. This asset class invests in companies that are not listed on a public exchange, generally smaller or earlier-stage companies that we posit may have a higher likelihood of innovating societal or environmental solutions.

To measure impact alignment in the Private Capital asset class, we assessed the products and services of each investee company and their potential to contribute to the SDGs. We identified 57 companies representing ~9.4 per cent of the asset class by dollars invested that have products or services that align positively to nine of the SDGs, and 23 of the underpinning SDG targets, as shown in the table to the left.

It is worth noting that Sunsuper's private capital investments that are aligned with the SDGs have arisen without dedicated portfolio impact targets. However, this analysis has given us a starting point to begin to engage these companies on their impact potential, and plan how to amplify that impact.

While the percentage of companies that have products or services that align positively with the SDGs is small, we share these results in an effort to increase transparency and highlight the need for more work in this area. However small in percentage terms, we recognise the importance of the 57 companies identified and would like to shine a light on a few case studies, as below.

Case studies

Intellihub

7 AFFORDABLE AND CLEAN ENERGY

Intellihub is an Australian company providing "smart metering" services for electricity, gas and water utilities as well as solar metering – adding data-based insights to the way electricity retailers and distributors monitor and manage their services and helping consumers better understand their utility usage. We see this service as innovating the grid, allowing for load control and greater visibility into the need for energy efficiency. Intellihub also offers import/export solar metering management, which mitigates the barrier to increasing solar capacity.

Blue Phoenix Group (formerly known as Inashco)

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Blue Phoenix Group was founded in the Netherlands to create a solution to the problem of leftover ash from waste-to-energy production and contribute to a circular economy. Blue Phoenix Group's solution, termed "urban mining" by some, recovers metal particles in the leftover ash such as aluminium and copper. They then use the remaining ash aggregate, partnering with construction companies for specific application of the aggregate. As the company describes it, they "close the recycling loop for waste-to-energy plants".

Force Fire

13 CLIMATE ACTION

Force Fire is an Australian company that designs, instals, inspects and tests fire-safety systems for commercial, industrial and office spaces in New South Wales. The importance of fire protection, management and resilience in Australia is hard to overstate as the country faces a higher incidence of bushfire, making any fire containment crucial. Force Fire aids this effort through their products, which include hazard-alarm systems, sprinklers, gaseous fire-suppressant systems, hydrants and hoses, as well as portable fire extinguishers.

Human rights and modern slavery

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.

Despite the abolition of slavery in almost all countries, the prevalence of exploitative practices indicates this is not an issue from a bygone era and remains critically important to address today. The International Labour Organisation estimates 40.3 million people globally[9], of which roughly 15,000 are in Australia, are victims of modern slavery.

> The International Labour Organisation estimates 40.3 million people globally, of which roughly 15,000 are in Australia, are victims of modern slavery.

Modern slavery describes situations where coercion, threats or deception are used to exploit victims and undermine their freedom. Examples include forced labour, debt bondage, human trafficking, child slavery and domestic servitude, among others. Modern slavery practises 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.

The Australian Modern Slavery Act (MSA) requires large companies to annually report on how their operations and supply chains may contribute to modern slavery and what they are doing to alleviate these risks. The legislation brings corporate supply chains, which are often complex and opaque, squarely into the spotlight.

The financial sector will play a crucial role in the fight to eradicate forced labour and exploitative human-rights. Collectively, financial organisations wield unparalleled influence over global business and investment and have the potential to drive advances in how businesses foster and protect human-rights. As a required reporting entity under the Modern Slavery Act, Sunsuper is committed to the continuous improvement of our practices and due diligence to uncover, mitigate and remediate instances of labour exploitation. Our Modern Slavery Statement will be published by the reporting deadline of 31 March 2021.

Using our vote to strengthen human rights: Apple & Chinese censorship

At their 26 February 2020 AGM, Apple Inc (NASDAQ:AAPL) faced a shareholder resolution regarding the company's policies on freedom of expression and access to information. As an organisation that operates globally, including in countries whose governments limit free speech and punish dissent, Apple faces significant human-rights risks in the censorship of their app-based services. The company has come under significant employee and public scrutiny on their involvement in complying with Chinese censorship pressure regarding VPN apps that would otherwise allow Chinese users to circumvent the Great Firewall. Sunsuper strongly supports upholding the Universal Declaration of Human Rights, including freedom of expression. As a result, we voted in support of the shareholder resolution to encourage greater transparency on how Apple's policies ensure human-rights are respected and upheld.

Investment actions undertaken in 2019-20

In our first year of dedicated action to combat modern-slavery risks, we have prioritised an assessment of the maturity of human-rights diligence and monitoring within our external fund managers who form our "Tier 1" suppliers. The questionnaire has established a baseline understanding of how human-rights risks are assessed and monitored within our fund managers' processes and provides an opportunity to elevate our collective efforts by sharing best practices with firms lagging in this regard.

In addition to the fund managers we have appointed (our "Tier 1" suppliers), we have examined the underlying listed-equity portfolio companies (our "Tier 2" suppliers). Our research was aided by data provided by MSCI ESG Manager.

This research identified companies that we consider to have a higher risk of modern and child slavery as a result of their activities and history, or because they have been rated by MSCI in the low end of the spectrum in terms of supply chain labour. These companies were typically in the agriculture, fashion and electronics industries.

The tobacco industry is one that has high structural risks of child and modern slavery. Sunsuper's tobacco exclusion was instituted in 2013, and therefore members have no exposure to this industry. Other industries considered to have severe structural risks of slavery in their supply chains were in agriculture and chocolate manufacturing.

As a result of the above analysis, 28 companies within the portfolio, representing a total investment of $185 million, were identified as requiring further engagement. Roughly half of these companies had readily accessible statements or policies on modern slavery, especially where they had operations in jurisdictions that had adopted modern slavery disclosure laws. Irrespective, Sunsuper is writing to these companies seeking further information on their progress towards eliminating modern slavery from their operations and encouraging them to improve.

There are two prior instances where risks within the labour supply chain resulted in Sunsuper excluding companies from its investable universe. The first of these companies, an Asian aquaculture firm, has committed to auditing and certificating its supply chain and to adjusting its sourcing. It expects this to be complete by 2021, at which point the firm may be re-included in Sunsuper's investable universe. The latest independent research on this issue in October 2019 found that sourcing adjustments were being made but were not yet complete.

The second excluded company, a Middle Eastern construction company, has limited disclosure on dealing with modern slavery in the workplace, despite numerous media and NGO reports of poor practise. An independent agency has sought information on its labour practices; however, the firm failed to respond. The issues identified earlier that led to the exclusion have not yet been addressed and this company remains excluded from our investable universe.

9 https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_575479.pdf

Inclusion and diversity

As a responsible investor, Sunsuper believes that inclusion and diversity are an essential tenet of good corporate governance. Both 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.

The Sunsuper Responsible Investment team has been an advocate for greater board diversity for several years during engagement meetings with investee companies, but, as an asset steward, we felt that we could broaden our impact by engaging with other stakeholders on this issue as well - namely, our external managers.

2020 Diversity Dimensions Project

In 2018, we began the Diversity Dimensions project, which aims to measure, monitor and action several elements of inclusion and diversity within the investment profession. This project is in recognition of the financial services industry historically having low levels of diversity across several dimensions, despite the robust evidence supporting the value of inclusive and diverse workplaces.

To champion inclusive and diverse teams and their added value, Sunsuper's Responsible Investment team surveys the investment decision makers within the external managers we employ. In 2020, the survey accounted for over 3,000 investment decision makers worldwide. We also survey Sunsuper's investment team to measure and monitor diversity internally.

One of our aims with publishing the diversity dimensions 2020 results is to increase transparency around inclusion and diversity within the investment profession. The five dimensions we survey – gender, cultural background, educational background, investment experience and geographic location – certainly do not paint the whole picture of an organisation or their efforts for inclusion; however each of these dimensions has been shown to add value to team performance.

See results on page 38-39.

Our framework for progress

We have been encouraged by the progress that has been made in terms of gender diversity and experience within the investment management profession. We will continue to champion inclusive and diverse workforces both internally within Sunsuper's investment team and externally in the investment management profession, at company boards and leadership teams, and with other stakeholders.

> Our framework focuses on measuring the diversity of internal and external investment teams and sharing the analysis with our leaders and asset managers.

1 Internal review

Sunsuper's investment team has grown over the last two years, creating room for change. In terms of gender diversity, Sunsuper's Investment team is composed of 29 per cent women, an improvement of 3 per cent compared to the 2018 profile and 3 per cent more than our external managers, which represent a proxy for the investment profession more broadly.

In 2020, 43 per cent of Sunsuper's investment team self-disclosed as a non-majority culture. While this is a 2 per cent decline from 2018 levels, it does represent a markedly more diverse team than the investment profession more broadly. Educational diversity is also important for idea generation and knowledge transfer within investment teams. As part of the internal review, we looked at the number of degrees held by our team and the subject of those degrees. While this metric has not changed much in the last two years and is small in percentage terms, we continue to benefit from a team with a diverse higher-education background, with additional degrees in the humanities, arts, law, journalism and other non-finance related subject areas.

In terms of investment experience, we also asked the team which financial crisis was the first crisis they worked through in the investment profession. We think this metric is important as a diversity of experience can inspire debate and bring well-balanced and risk-aware conversations to the table. Over the last two years, the level of experience has become more evenly distributed. This means that our team has grown to include more new entrants and mid-level roles, bringing knowledge and skill in new technologies and theories while retaining tenured professionals who bring experience and mentorship.

2 External review

Our external managers are the 70+ fund management companies who invest in assets on behalf of Sunsuper. In 2020, over 3,000 investment decision makers were accounted for in the survey, working at fund management companies such as BlackRock and State Street.

In 2020, the gender profile among the investment professionals surveyed improved significantly, increasing from 18 per cent female in 2018 up to 26 per cent female of those surveyed. However, there is still room for improvement, especially when considering that the average percentage of female team members is 20 per cent, up only 2 per cent compared to the average in 2018.

In terms of cultural background, 25 per cent of those surveyed identified as a non-majority culture, representing an increase of 1 per cent since 2018 in absolute terms. Conversely to the pattern seen in gender profile, the average percentage of non-majority team members in 2020 increased to 25 per cent, up from 19 per cent in 2018.

For investment experience, the most notable pattern for external managers in 2020 was an increase in the number of new entrants to the industry whose first financial crisis while working in investments was the COVID-19 market crash of March 2020. The pattern for educational background has not changed markedly from 2018 to 2020.

Geographically, in 2020 we found a greater home bias among our external managers, with 27 per cent of investment professional surveyed working in Australia or New Zealand; whereas, in 2018, this figure was 20 per cent. The remaining 73 per cent of our managers work across the globe.

3 Share what we have learned

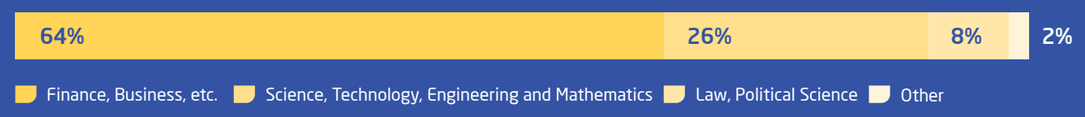
We began this project operating under the mantra "what gets measured, gets managed", and have been encouraged to see our diversity profile as well as that of our external managers improve over the last two years, perhaps partially motivated by our measurement prompt. Our aim in 2020 is to extend this practice by sharing these project results publicly and with our external managers to celebrate the progress that has been made and spark candid discussion regarding areas for improvement. This approach of engaging with stakeholders to influence change is consistent with other RI initiatives Sunsuper undertakes.

Diversity dimensions 2020 results

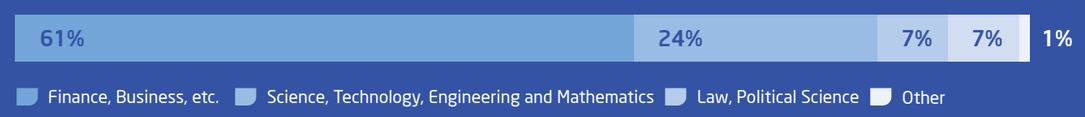
sunsuper

Educational background

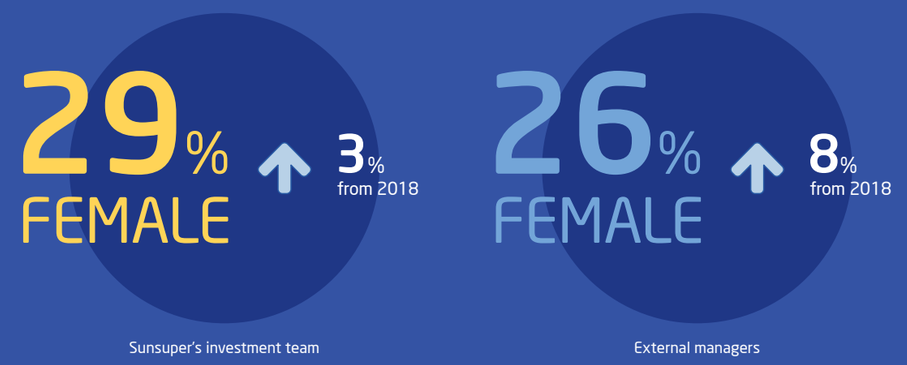
Percentage of degrees held by Sunsuper's investment team



Percentage of degrees held by external managers

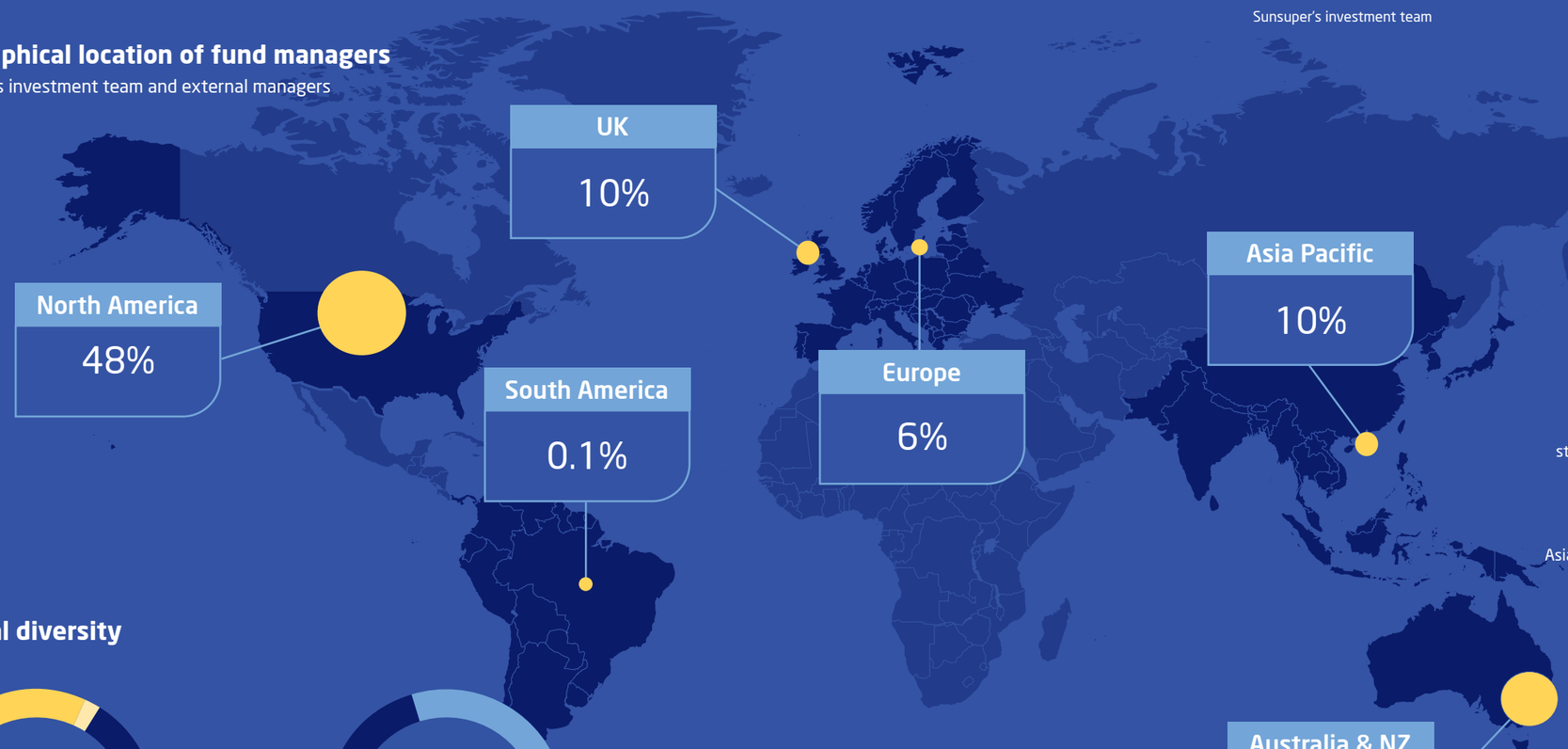


Gender diversity

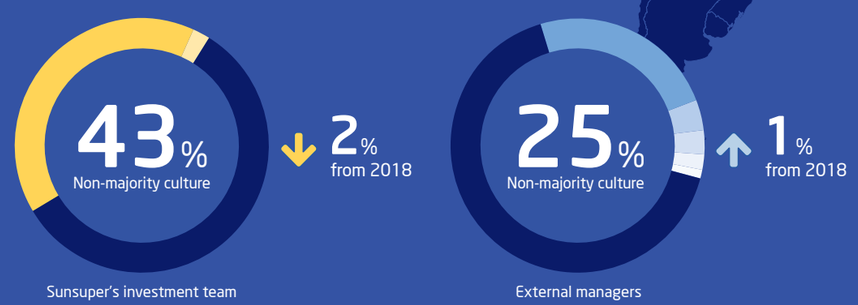


Geographical location of fund managers

Sunsuper's investment team and external managers

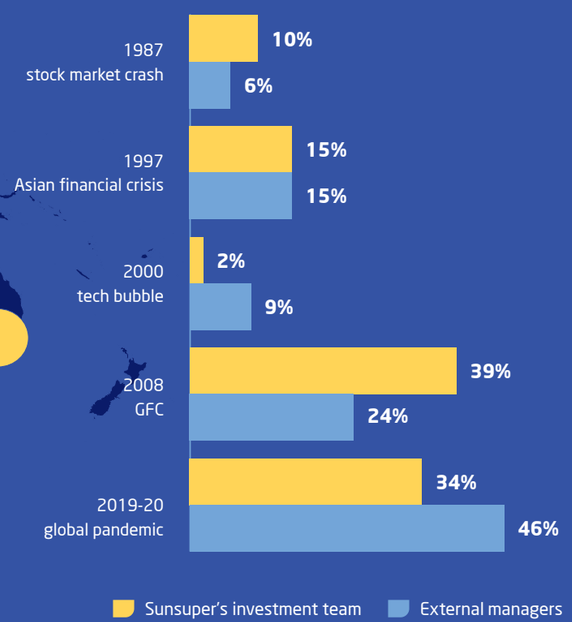


Cultural diversity



Investment experience

The graph shows the percentage of the investment team in which they first experienced a financial crisis as industry professionals.



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 2019-20, Sunsuper lodged to participate in seven class actions and recovered investment losses of $723,847.

Partnering with like-minded investors to drive sustainable change

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

Signatory of:

Principles for Responsible Investment
Signatory

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

Responsible Investment Association Australasia
Member

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

ESG Research Australia
Working Group Member

ESG Research Australia is an investor network committed to supporting ESG-inclusive research in the investment process.

A proud participant of:

Climate Action 100+
Participant

Climate Action 100+ is an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

GRESB
Investor Member

GRESB is the environmental, social and governance (ESG) benchmark for real assets, providing standardised and validated ESG data to the capital markets.

Appendix

Carbon footprint methodology

This second iteration of inventorying the carbon emissions, associated with our investments, covers listed equity ("shares") investments only, which represented $34.58 billion as at 30 June 2019. 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 300 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 refer to direct emissions from owned or controlled sources

Scope 2 emissions refer 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 emissions.[10]

Data sources

Scope 1 and 2 carbon emissions and emissions intensity data was sourced from MSCI ESG Carbon Metrics.

ESG Ratings and data provided by:

MSCI ESG Research LLC

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

Calculations[11]

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

Definition	Calculation
Total carbon emissions	
Measures the absolute greenhouse gas emissions associated with a portfolio, expressed in tCO_2 equivalent	$=\sum_{n}^{i}\left(\frac{\text{value of investment}}{\text{issuer's market capitalisation}} \times \text{issuer's Scope 1 and Scope 2 GHG emissions}\right)$
Carbon footprint	
Measures the total carbon emissions for a portfolio normalised by the market value of the portfolio, expressed in tCO2e/$M invested	$=\frac{\sum_{n}^{i}\left(\frac{\text{value of investment}}{\text{issuer's market capitalisation}} \times \text{issuer's Scope 1 and Scope 2 GHG emissions}\right)}{\text{portfolio value (\$M)}}$
Weighted average carbon intensity	
Measures a portfolio's exposure to carbon-intensive companies, expressed in tCO2e/$M revenue	$=\sum_{n}^{i}\left(\frac{\text{value of investment}}{\text{portfolio value}} \times \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}}{\text{issuer's \$M revenue}}\right)$

11 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

sunsuper

dream with your eyes open

13 11 84 (+61 7 3121 0700 when overseas)
GPO Box 2924 Brisbane QLD 4001
sunsuper.com.au

Sunsuper Pty Ltd
ABN 88 010 720 840
AFSL No. 228975

Sunsuper Superannuation Fund
ABN 98 503 137 921
Unique Super Identifier (USI) 98 503 137 921 001

MySuper Authorisation 98 503 137 921 996

sunsuper.com.au/responsible-investing

2454 (11/20)