

Responsible Investment Report

2020-21

Our actions on
climate change



Opdenergy, Sunsuper investment since 2021

About Sunsuper

Sunsuper is one of Australia's largest superannuation funds. We're a profit-for-members fund looking after the retirement savings of more than 1.4 million Australians*.

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. With more than \$90 billion in funds under management*, we are proud our members trust us to manage their retirement savings and help them build financially secure futures.

For more than a decade we've integrated sustainability considerations in our investment process, and managed environmental, social and governance risks and opportunities for better investment outcomes for our members, and to positively impact the world we all live in.

Climate change represents one of the most significant challenges of our time, and as global investors we're committed to doing our part towards investing in a low-carbon economy and creating a more sustainable future for all Australians.

*As at 30 June 2021.



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Message from the Chief Investment Officer



On behalf of Sunsuper, I am pleased to present our 2020-21 *Responsible investment report*. It has been a unique year in Sunsuper's history. Amidst a global focus on managing the COVID-19 pandemic, we achieved our best investment performance outcomes in over 25 years, and announced a planned merger between Sunsuper and QSuper. It has also been a pivotal year in the Fund's approach to climate change, which is the focus of this report.

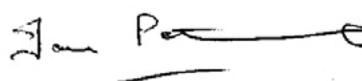
Headlining our approach is a commitment to target an investment portfolio that has net-zero carbon emissions by 2050, along with interim targets for each of the next two decades. Accompanying this target is a combination of strategies across the investment spectrum to have our investments align to a low-carbon world. Our strategies will manage the risks and disruptions to the energy, manufacturing and transport industries and the built environment, and seek out innovative solutions to the climate crisis. The adoption of Task Force on Climate-related Financial Disclosures (TCFD) aligned reporting, well ahead of any regulatory requirements, is a good example of the uplift in our approach.

For the last three years Sunsuper has reported the climate metrics recommended by the TCFD, and this year we have built on this foundation to produce more comprehensive reporting and commentary.

The additional transparency you will find in this report is but one aspect of our recent actions to monitor and manage climate risk. In addition, the last year has seen the investment team working methodically through various actionable initiatives to be applied in the realms of our active ownership approach and our investment decision making to better mitigate climate risks within the portfolio. This is a key part of a robust risk management process, consistent with the long-term investment horizon of the Fund.

Ultimately, sustainability is not just about managing risks, but also making profitable investments in areas that will be part of the solution. Case studies are a great way to bring to life the opportunities we are encountering and taking advantage of within the investment portfolio, and in this report we have provided a selection that cover different asset classes within the Fund.

I trust you find the report interesting, engaging and, above all, helpful to better understand Sunsuper's approach to managing climate-change risk.



Ian Patrick
Chief Investment Officer

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Headlining our approach is a commitment to target an investment portfolio that has net-zero carbon emissions by 2050, along with interim targets for each of the next two decades.

Climate Action Plan

As stewards of our members' retirement savings, we recognise our obligation to manage financial risk in our investment portfolio. Decarbonisation and the transition to a low-carbon future represent a shift to the global economy and present potential financial risks and opportunities that we need to manage.

In June 2020, Sunsuper adopted its Climate Action Plan (CAP), which included a commitment to invest and manage its investment portfolio towards achieving a target of a net-zero carbon emissions investment portfolio by 2050. Our CAP outlines how we will measure, manage and mitigate climate risk within our investment portfolio to reach this target while delivering on our duty to promote members' financial interests. Our Climate Action Statement summarises the actions outlined in our CAP and is available on our [website](#).

Our CAP includes three key pillars, which set out our actions to achieve our net-zero emissions target:

Research and data collection

To meet our net-zero emissions by 2050 ambition, it is important that we have access to high-quality climate research, data and analytics across the total portfolio to inform investment decisions. Since 2015, we have continued to improve our ability to measure and monitor climate investment risks and opportunities through activities including scenario analysis and measuring the carbon footprint of our listed shares portfolio.

Engaging with the companies we invest in

We use our influence to encourage our investee companies to manage and disclose their climate risks. Our focus is to ensure our investee companies are adopting policies and strategies to reduce their emissions aligned with the goals of the Paris Agreement and the transition to a low-carbon economy.

Our stewardship activities must provide comfort that the companies we invest in have a role in a low-carbon economy, and that they are transitioning at a sufficient pace to justify their market price. In addition, we're committed to helping drive change through collaborative initiatives like Climate Action 100+.

Evolving our investment portfolio

Effective engagement with investment managers and companies is an important activity to manage climate risks; however, it may not address all of the attendant financial risks. Equally, we recognise that the transition to a low-carbon economy presents opportunities for economic growth and investment returns for members. This pillar is focused on actions that help to monitor and manage our investment portfolio's exposure to climate risks and ensure that attractive, low-carbon transition opportunities are seized.

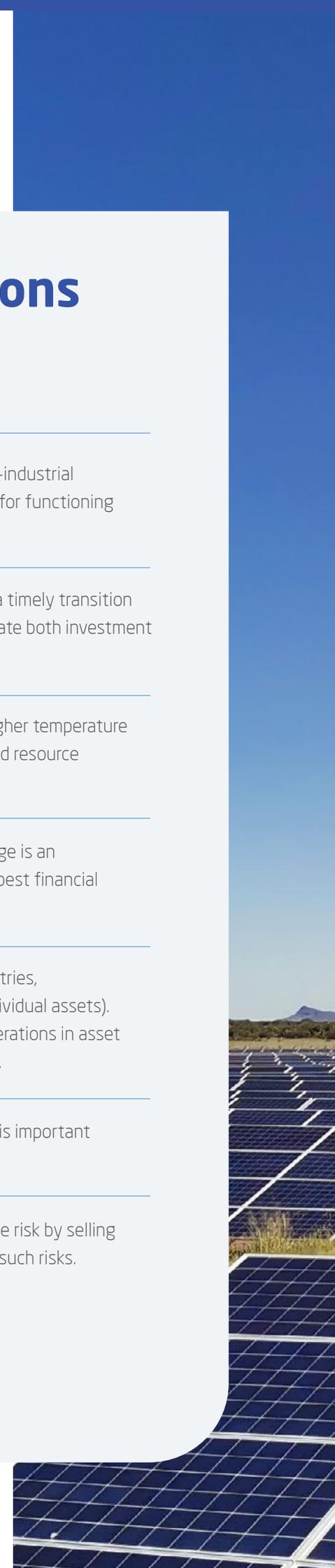
Sunsuper's Climate Action Plan



Sunsuper's climate conclusions

Sunsuper concludes that:

- 1 The science of anthropogenic climate change is accepted.
- 2 The global ambition to keep global warming to well below 2°C above pre-industrial temperatures, and pursue efforts to limit warming to 1.5°C, is important for functioning economies, markets and members' retirement outcomes.
- 3 Achieving this ambition requires significant structural change, including a timely transition to a low-carbon economy. The transition is likely to be disruptive and create both investment risks and opportunities.
- 4 Failure to transition is likely to result in climate change scenarios with higher temperature increases and greater physical damages, such as natural catastrophes and resource availability changes.
- 5 Management of material risks and opportunities relating to climate change is an essential element of the Sunsuper Trustee's fiduciary duty to act in the best financial interests of members.
- 6 Risks from climate change may be both systemic (affecting certain industries, commodities, countries and geographies) and idiosyncratic (affecting individual assets). Therefore, our investment approach must include climate change considerations in asset allocation, as a key driver of returns, and portfolio construction decisions.
- 7 Effective engagement with investment managers and investee entities is important in de-risking the portfolio but does not address all the attendant risks.
- 8 Some market participants will attempt to reduce their exposure to climate risk by selling exposed assets to others at prices not sufficiently discounted to reflect such risks. We aim to avoid buying or being left holding such assets.



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Our unyielding focus is on maximising long-term, risk-adjusted returns for our members. Targeting a net-zero emissions portfolio by 2050 is the most responsible action we can take now to address the risks and opportunities linked to climate change.

Ian Patrick
Sunsuper CIO

Centauro Energia, a Sunsuper investment since March 2019, is a renewable energy platform in Mexico comprised of solar and wind turbine assets with a total installed capacity of 262MW.



Managing our portfolio through the transition

Our investment strategy focuses on building and enhancing members' lifelong savings through delivering strong, long-term returns. While the transition to a low-carbon economy presents many challenges and risks, it also presents opportunities to invest in sustainable companies and assets that are at the forefront of managing environmental impacts and delivering climate solutions.

The following case studies bring to life the opportunities we are encountering as we transition to a low-carbon economy. It is important to emphasise that these case studies represent a small proportion of Sunsuper's total portfolio. However, they do offer an insight into some of the international and domestic assets we have invested in, in recent years.

Energy

Climate change, and the related energy transition, provides 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.



Opdenenergy Zafra project in Alcalá de Guadaíra, Spain.

Opdenenergy

In 2021, Sunsuper co-invested €20m alongside EIG, our specialist energy manager, in Opdenenergy’s senior HoldCo notes. Opdenenergy is an independent Spanish renewable energy power producer with approximately 584 MW of total installed¹ gross capacity and a development portfolio of circa 7.9 GW² in Spain, Italy, Chile, Mexico, the USA and the UK. The investment allowed Opdenenergy to refinance existing debt, buy back an 80 per cent stake in a 150 MW portfolio of operating solar PV plants in Spain previously developed by the company, and fund the development of their advanced pipeline.

Opdenenergy focuses on solar PV and onshore wind, currently the most cost-competitive power generation technologies. These technologies are, in many jurisdictions, cheaper to build and operate than to operate existing fossil-fuelled plants³. Wind and solar PV are expected to grow over the coming decades to provide 56 per cent of electricity globally in 2050, up from 9 per cent in 2020⁴.

¹Installed capacity means assets in operation or under construction to be connected before year end.

²As of June 2021.

³Bloomberg NEF Solar 1H 2021 LCOE Update.

⁴BloombergNEF New Energy Outlook 2020.

Enel Green Power

Enel Green Power is an Italian multinational renewable energy corporation, and a subsidiary of Enel Group, that manages renewable energy plants globally. Enel launched its green bond programme in 2016, primarily supporting the work of its green subsidiary, Enel Green Power. In June 2020, our investment manager, Affirmative Investment Management, purchased one of the green bonds issued in 2018 for Sunsuper’s portfolio.

One of the Enel projects that Sunsuper’s investment is financing is the **Diamond Vista wind farm**, located in Kansas, USA. The farm is a 95 turbine 300MW capacity project that generates over 1,000GWh annually, equivalent to the electricity needs of over 100,000 US households. At the peak of construction, the project created 500 jobs. Enel employed its sustainable construction model meaning that energy, waste, water use and the economic impact on the local community were monitored and managed during the construction process.

Transport

Due to the heavy reliance on petroleum and gas as fuel sources, transport is one of the largest contributors to greenhouse gas emissions both domestically and abroad. In Australia, the Department of Industry, Science, Energy and Resources reports that the transport sector is the third largest emitter of greenhouse gas annually¹ (figure 1).

Shifting towards more sustainable, carbon-neutral forms of transport is essential for global societies to tackle climate change and meet international commitments to reduce emissions. We've invested in companies that are reducing their greenhouse emissions footprint and supporting this shift in the transport sector. Ferrovie and Arlanda Express are two examples of our exposure to lower-carbon transport in Europe.

¹Australian Government, annual emissions data by sector December 2020.

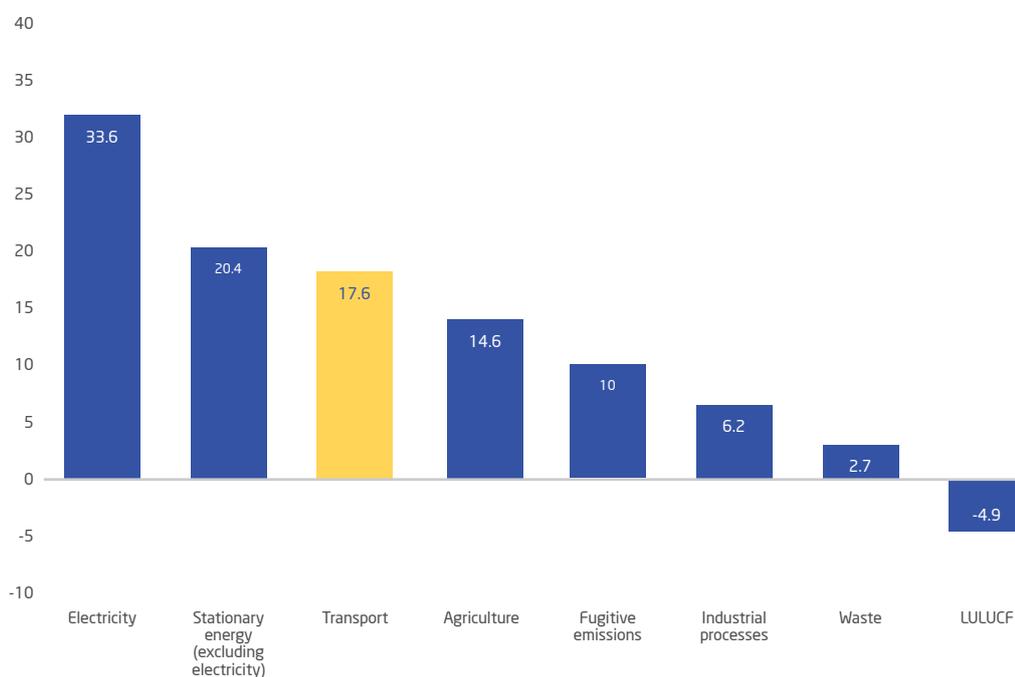


Figure 1: 2020 Australian greenhouse gas emissions breakdown by sector (%).

Source: Department of Industry, Science, Energy and Resources (2021)

LULUCF: Land use, land-use change, and forestry.

Ferrovie dello Stato Italiane

Ferrovie dello Stato Italiane (Ferrovie) is a state-owned entity which manages infrastructure and transport services on the Italian rail network. The entity issued its first green bond in November 2017. The green bonds fund clean transportation, including new electric multiple-unit trains for regional passenger transport, new high-speed trains and electric locomotives for freight transport. Affirmative Investment Management (AIM) first purchased the Group's green bonds for Sunsuper's portfolio in July 2019.

One of the projects that Sunsuper's investment is financing is new regional trains in Italy. The medium-capacity and high-capacity trains are energy-efficient, with engines that use natural ventilation, and include light alloys and LED lighting. The trains will also have more bike racks with charging points for electric bikes. The issuer has calculated that 270,000 tCO₂ will be avoided through the funding of 60 new trains.



Arlanda Express. Sunsuper investment since 2014.

Arlanda Express

Sunsuper owns a 25 per cent stake in the **Arlanda Express**, a high-speed, 18-minute rail link between the Stockholm city centre and the Arlanda Airport in Stockholm, Sweden. Arlanda Express has achieved carbon neutrality through sourcing 100 per cent of its electricity used for railroad and train operations from renewable energy sources such as hydropower, wind power and biofuels, and offsetting the remaining emissions. Through energy efficiency and green-energy initiatives, the company has reduced its carbon emissions to approximately 100t CO₂ equivalent, which it then seeks to offset through Certified Emissions Reductions from the UN Clean Development Mechanism. In 2019, Arlanda purchased certified emissions reductions from a solar project with 5MW capacity located in Bhilwara, India.

Property

Sunsuper expects green and sustainable buildings to provide superior long-term returns and to mitigate the downside risk of vacancy and obsolescence, as tenant demand for sustainable premises continues to grow. Flagship office tenants often seek environmentally friendly buildings for their corporate headquarters, on the basis that sustainable premises can reflect an organisation's commitment to corporate social responsibility standards, meet employee workplace expectations, and limit operating costs. As a result, the environmental design and capabilities of properties are key considerations for many prospective tenants when evaluating a property's suitability. In turn when we invest in sustainable buildings, this influences economic outcomes for Sunsuper members through lower vacancy rates, higher rents and, ultimately, the value of the property.

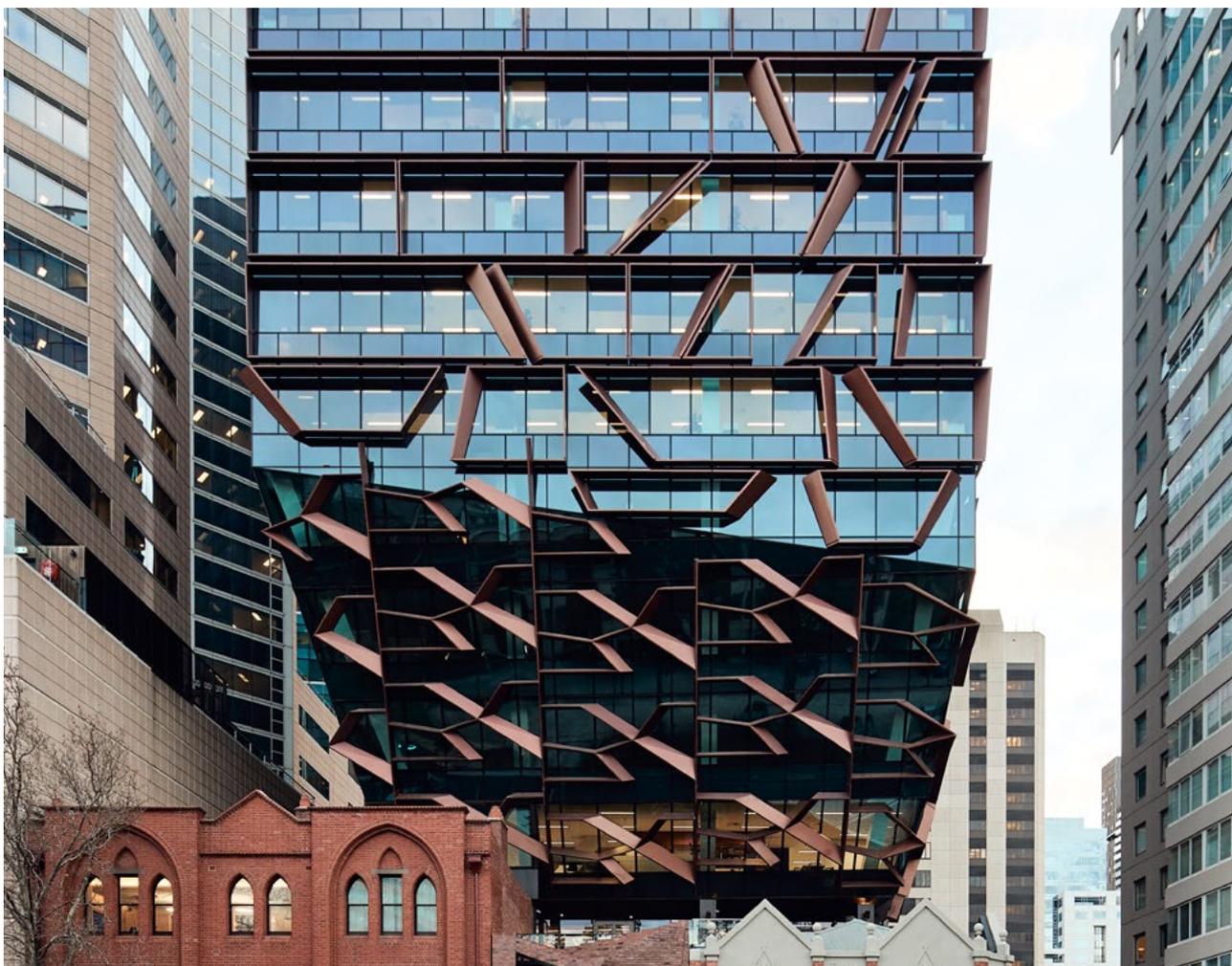
What are the NABERS ratings?

NABERS, **National Australian Built Environmental Rating System**, is a national rating system that measures the environmental performance of commercial Australian buildings. The assessment focuses on energy efficiency, water usage, waste management, indoor environmental quality and the impact of the building on the environment. According to NABERS, buildings are responsible for 40 per cent of the world's carbon emissions, use 40 per cent of the world's energy and use 30 per cent of the world's available drinking water¹. Understanding the key drivers of a building's impact, and implementing efficiency initiatives to reduce consumption, are imperative to contribute to a healthy and sustainable environment.

¹Source: About NABERS



271 Spring Street, Melbourne.
Sunsuper investment since 2020.



271 Spring Street, Melbourne

Through our investment in the **ISPT Core Fund**, Sunsuper has exposure to 271 Spring Street, Melbourne, a 15,600m² 16-level boutique office building within ISPT's Lonsdale Street Precinct. Encompassing leading architectural and workplace design, the property balanced quality, customer expectations and heritage conservation principles. 271 Spring Street has achieved carbon-neutral status and been awarded the world leading "As-built" 6 Star Green Star certification by the Green Building Council of Australia.

Heritage conservation was integral to the vision for the Lonsdale Street Precinct design and development process. Before construction commenced on 271 Spring Street, a three-month archaeological dig with Heritage Victoria and the Melbourne Museum was undertaken. Many important artefacts uncovered are now showcased within the Melbourne Museum, complementing the interpretive foyer displays of 271 Spring Street and 50 Lonsdale Street. To futureproof the asset from climate change and as part of the ISPT Climate Resilience Program, ISPT developed a Climate Change Adaption Plan for the property. The Climate Change Adaption Plan assessed information from the Victorian State Government and CSIRO for three periods, on completion in 2019, 2030 and 2070, to identify and map climate variables and indirect effects relevant to the design, construction and ongoing operations of the property. Further, the base building services have operated on carbon-neutral electricity since July 2020 and the property benefits from a 63.64kW solar PV rooftop installation, which will reduce energy consumption and operational expenditure. 271 Spring Street has also received a 5.5 Star NABERS Indoor Environment Quality rating.



Locomotive Workshops, Sydney.
Sunsuper investment since 2021.

Locomotive Workshops, South Eveleigh, Sydney

In August 2021, Sunsuper acquired a 49 per cent stake in the **Locomotive Workshops** in the revitalised South Eveleigh precinct, less than one kilometre from Redfern Station on the periphery of Sydney's central business district. South Eveleigh's Locomotive Workshop building is one of the most significant heritage buildings in New South Wales. The adaptive re-use and redevelopment of the 1880s-built Locomotive Workshop is expected to be completed in late 2021 and will comprise a combination of bespoke retail and approximately 25,000 square metres of modern office space. The precinct will also offer new dining, shopping, health and wellness, and community recreation.

Multiple sustainability initiatives have been employed including high-efficiency fixtures and fittings, reduced artificial lighting energy density, and a 100kL rainwater harvesting system, servicing cooling towers and bathrooms. The installation of a 670kW onsite, rooftop solar array contributes to reducing peak electrical demand at the Locomotive Workshops and is expected to eliminate approximately 700 tonnes of CO₂ per annum. The property is also targeting a 6 Star Green Star rating and the office component is aiming to achieve a 5.5 Star NABERS Energy rating and 4 Star NABERS water rating.



Exercising our voice and vote

Sunsuper is committed to being an active owner on behalf of our members. We typically engage with our largest listed equity investments in Australia at least annually on a range of sustainability topics, including climate change. More recently, we have expanded our engagement activities to include some companies that may not be among our largest investments but are nonetheless exposed to climate risk by virtue of their operations, products or services.

We use our influence to encourage companies we are invested in to manage and disclose climate risks and opportunities in line with the Taskforce for Climate-related Financial Disclosures (TCFD) framework. Through our engagement we seek to understand the company's attitude to climate risks and opportunities, and their strategies, as well as their progress on executing these plans and views on disclosing targets and metrics, including indirect emissions.

To complement our existing climate change engagement agenda, Sunsuper has signed on to participate in the Climate Action 100+ global investor initiative. As a signatory, we participate in collaborative dialogue with companies to encourage them to strengthen their climate disclosures, take action to reduce greenhouse gas emissions across the value chain, and model their business plans against a range of possible policy and warming scenarios.

South Eveleigh, Sunsuper investment since 2015.

Principles in practice:

Collaborating to drive emissions reductions

Climate Action 100+ 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 focuses on productive dialogue with 167 companies that have significant greenhouse gas emissions and/or are critical to the net-zero emissions transition and to meeting the objectives of the Paris Agreement. The initiative has garnered support from 615 investors who represent more than US\$55 trillion in assets under management.

The key goals of the Climate Action 100+ initiative align closely with Sunsuper's climate-change engagement agenda. The collaborative initiative seeks commitments from boards and senior management to:

- improve governance of climate risks and opportunities,
- reduce greenhouse gas emissions in line with the goals of the Paris Agreement, and
- provide enhanced disclosure aligned with the TCFD recommendations.

Since the launch of Climate Action 100+ in December 2017¹, numerous significant greenhouse gas emitters have expanded their climate-action ambitions². Key progress includes 43 per cent of Climate Action 100+ focus companies having set a net-zero by 2050 target or ambition, and 78 per cent having disclosed board or board committee oversight of the management of climate change risks². However, there is more work to be done, and Sunsuper is committed to contributing.



43%

of CA100+ focus companies set a net-zero target by 2050

78%

disclosed board or board committee oversight of the management of climate change risks

¹Climateaction100.org

²Climate Action 100+ Progress report

Proxy voting

Through our public equity investments, Sunsuper is afforded the right to vote at annual general meetings (AGMs) on behalf of our members. Our approach to exercising our voting rights is pragmatic and considers local laws, corporate governance best practice by geography, and unique circumstances of companies. We recognise the importance of participating in shareholder votes and strive to vote all proxies at shareholder meetings organised by investee companies. When deciding how to cast votes in these forums, maximising our members' real, long-term investment returns is our primary consideration.

Our approach to shareholder climate-related resolutions is that each material resolution is reviewed on its merits. As a long-term investor managing our members' retirement savings, we recognise the importance of understanding the embedded climate risks in our investee companies.

We expect climate-exposed companies that we invest in to identify climate change as a material risk, develop a climate strategy for the transition to a low-carbon economy, and publicly disclose information aligned with the TCFD recommendations.

In the 12 months to June 2021, Sunsuper voted on 64,999 resolutions at 5,865 AGMs. Over the same period, Sunsuper supported 48 per cent of climate change-related shareholder resolutions. Figure 2 shows the breakdown of shareholder proposals relating to climate change that Sunsuper supported in 2020-21.

Breakdown of climate shareholder resolutions supported by Sunsuper in 2020-21

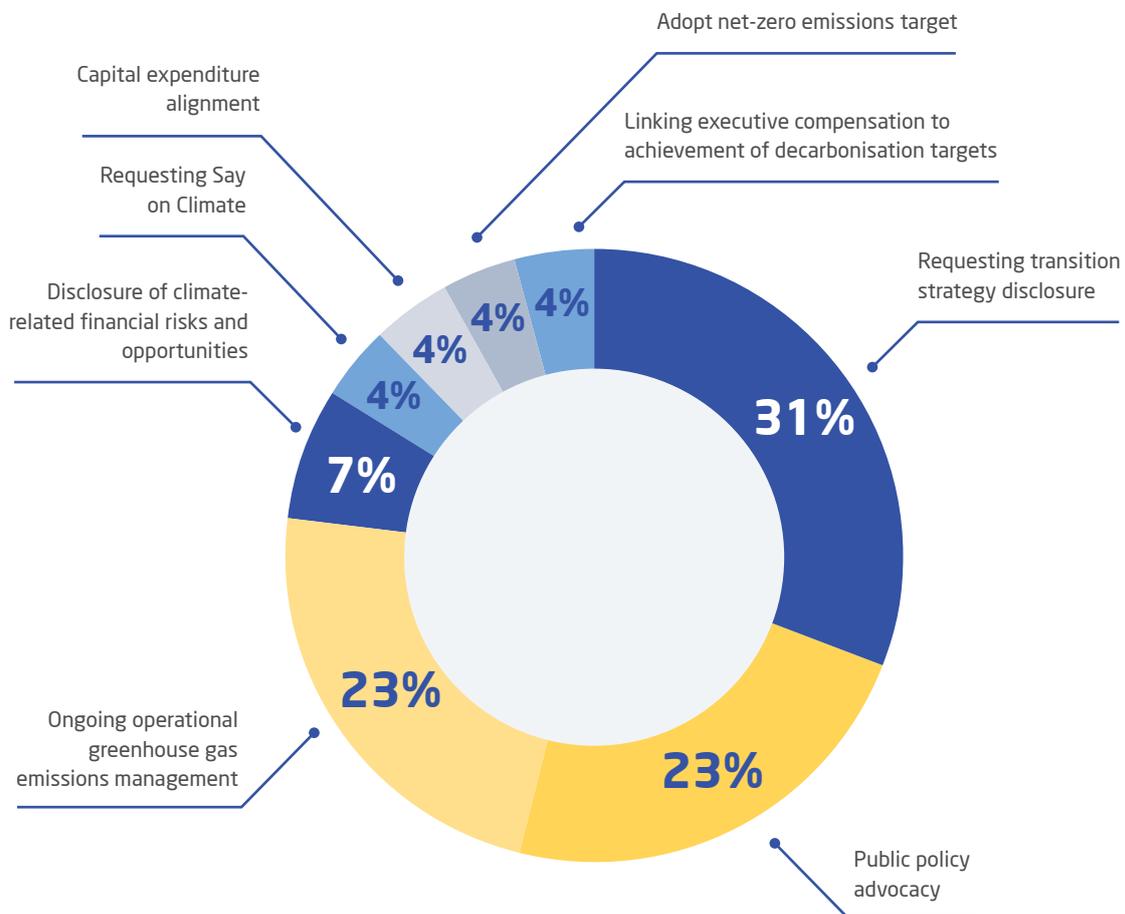


Figure 2: Breakdown of climate change-related shareholder resolutions that Sunsuper supported in 2020-21 financial year.

Where we find companies' existing disclosures insufficient, we have been supportive of shareholder proposals that request additional disclosure of climate-related risks and opportunities and strategies to manage those risks. In addition, anti-climate lobbying is one of the most acute impediments to certainty on long-term energy and climate public policy. Over the past year, we have supported a number of shareholder proposals requesting companies review their direct and indirect public policy advocacy activities for consistency against their stated climate-change policies and strategies.



We expect climate-exposed companies that we invest in to identify climate change as a material risk, develop a climate strategy for the transition to a low-carbon economy, and publicly disclose information aligned with the TCFD recommendations.

Below are examples of our consideration and vote rationales on climate-related resolutions during 2020-21 financial year (figure 3).

Principles in practice:

Supporting change at Exxon Mobil

In the six months to May 2021, activist hedge fund Engine No.1 coordinated a dedicated campaign to push for change at Exxon Mobil to help drive the oil and gas company towards a more sustainable, lower-carbon business strategy.

Our analysis of Exxon Mobil identified that the company faced significant future risks in the transition to a low-carbon economy and lacked energy transformation experience on the board. Combined with these vulnerabilities, we were concerned about the company's disclosed forward-looking climate strategy.

As such, we voted against Exxon Mobil management to support three of the alternate slate of director nominees who would bring relevant global conventional and renewable energy experience, which we see as being critical for the next phase of Exxon Mobil's business.

Chevron Corporation (AGM: 26 May 2021)

Proposal: Shareholder proposal requested Chevron's Board of Directors issue an audited report on climate-related impacts to the company in line with the IEA net-zero 2050 scenario.

Sunsuper vote	Rationale for the vote decision	Overall vote result
	In our view, it would be beneficial for investors to understand Chevron's level of exposure to climate change risks as envisioned by the IEA net-zero 2050 scenario. Such disclosures would provide useful information into how the company is responding to the uncertainty inherent in the energy transition.	47.8 per cent of shareholders supported this proposal.

Oil Search Ltd. (AGM: 30 April 2021)

Proposal: Shareholder proposal regarding capital protection. Shareholders requested the company disclose information that demonstrates how the company's capital expenditure and operations will be managed in a manner that is consistent with the climate goals of the Paris Agreement.

Sunsuper vote	Rationale for the vote decision	Overall vote result
	In our view, the company already provides disclosures on how their capital expenditure aligns with the goals of the Paris Agreement. We were also concerned about the drafting of this resolution, particularly the request for disclosures that may be considered commercially sensitive information. For these reasons, Sunsuper did not support this resolution.	9.6 per cent of shareholders supported this proposal.

Figure 3: Examples of Sunsuper's consideration and vote rationales on climate-related resolutions during 2020-21.

Say on Climate

Throughout the 2020-21 proxy voting season, we saw the rise of a novel type of AGM resolution - the "Say on Climate". Typically, a Say on Climate is a transition and decarbonisation strategy put forward by management on how it intends to deal with the challenges presented by climate change. Shareholders are entitled to vote on these plans to express either their support for a sensible transition pathway, or whether the company needs to increase the speed or ambition of its decarbonisation trajectory. In Australia, Rio Tinto, Santos, Woodside and Oil Search are among the companies that have pledged to introduce the vote on climate plans at their next AGM.

Sunsuper views Say on Climate as a positive development. Allowing shareholders a public vote will ensure materially exposed companies develop robust strategies to manage their business through the transition to a low-carbon economy and disclose information in accordance with the TCFD framework. We do, however, recognise that Say on Climate presents challenges for both companies and investors as there are no established best-practice standards and, therefore, we are continuing to closely monitor developments in this area.



Principles in practice:

Say on Climate at Royal Dutch Shell

Anglo-Dutch oil and gas super-major Royal Dutch Shell was one of the early adopters putting their energy-transition strategy up for a shareholder vote at their May 2021 annual general meeting. While we welcomed the increased disclosure from Shell, we were concerned about the pace of their strategy combined with the heavy reliance on carbon offsets and future technology breakthroughs. Accordingly, Sunsuper was one of the 11 per cent of shareholders who voted against the proposal to approve Royal Dutch Shell's Energy Transition Strategy. Shortly after Shell's annual general meeting, a Dutch court ruled against the oil giant in a landmark case ordering the company to reduce its greenhouse gas emissions by 45 per cent by 2030 from 2019 baseline levels, in order to align its policies with the Paris Agreement.



**Sunsuper's approach
to the Taskforce
for Climate-related
Financial Disclosures
recommendations**

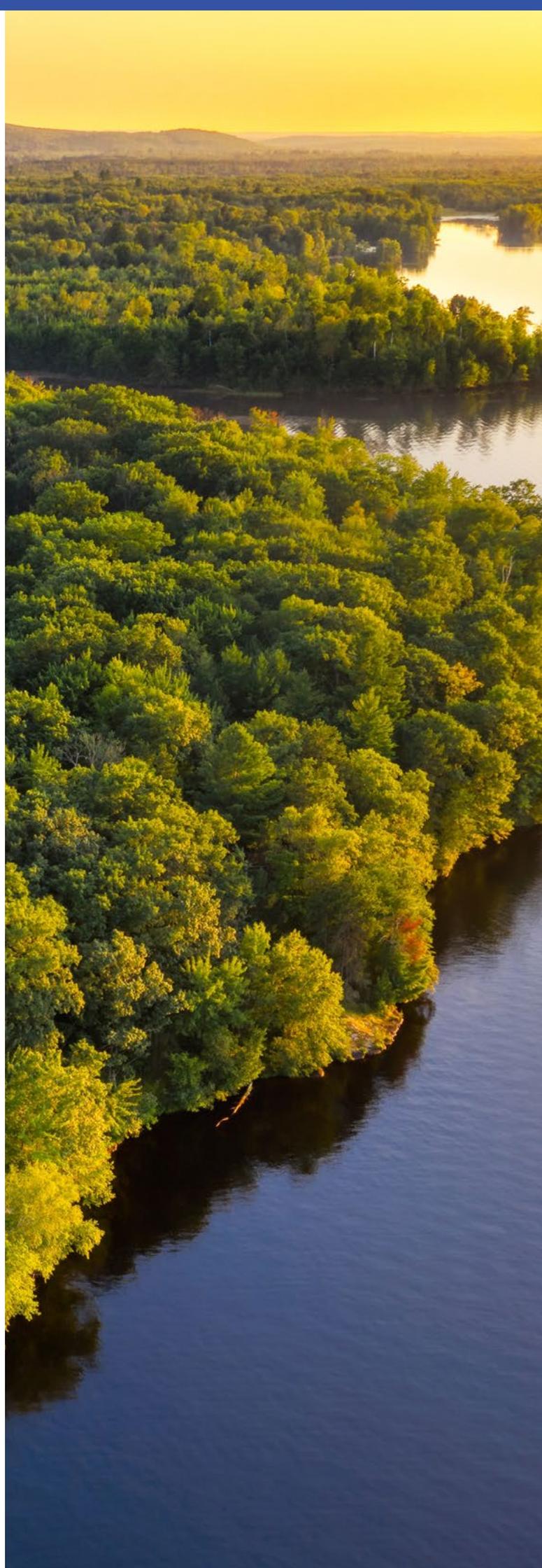




Taskforce for Climate-related Financial Disclosures recommendations

The **TCFD** was established in 2015 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 resilience of the global economy. The recommendations call for companies to communicate climate-related risks and opportunities against four core areas: governance, strategy, risk management, and metrics and targets¹.

¹TCFD recommendations



Core Elements of Recommended Climate-Related Financial Disclosures



Figure 4: Elements of the TCFD's recommended climate-related financial disclosures.

Governance

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

Strategy

The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Risk management

The processes used by the organisation to identify, assess and manage climate-related risks.

Metrics and targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities.



Governance

TCFD recommendations:

A Describe the board's oversight of climate-related risks and opportunities.

B Describe management's role in assessing and managing climate-related risks and opportunities.

Role of the Board of Directors

The Board is responsible for the overall governance and strategic direction of Sunsuper, with the objective of protecting and enhancing members' best interests, and taking into account the interests of employees, employers, other stakeholders, suppliers and the wider community.

The Sunsuper Investment Committee, a sub-committee of the Board, has delegated authority from the Board to formulate and oversee Sunsuper's investment activities, including the investment governance framework. In addition, the Investment Committee approves the Environmental, Social and Governance (ESG) Policy and the Climate Action Plan. The Investment Committee receives a detailed responsible investment update twice annually, as well as material responsible investment updates at every Investment Committee meeting through the Chief Investment Officer's Report.

The Audit, Compliance and Risk Management Committee (ACRMC), a Board sub-committee, is responsible for monitoring compliance with Sunsuper's Risk Management Framework, and for ensuring that adequate risk management, internal control, compliance, corporate governance, accounting and financial reporting processes are in place. The ACRMC receives updates on Sunsuper's overall risk management and compliance with regulatory guidance. Climate-change risk is a specifically managed material risk within the framework.

Role of management

The Investment Committee has delegated implementation of Sunsuper's ESG policy and activities, including climate change, to the Chief Investment Officer, who has further delegated day-to-day operational management of ESG investment activities to the Head of Responsible Investment. The Responsible Investment team is responsible for Sunsuper's active ownership program, including direct and collaborative engagements and proxy voting. In addition, the Responsible Investment team provides specialised advice and works collaboratively with the portfolio strategy, public markets and private markets teams to integrate ESG considerations, including climate change, in the Fund's investment decision making process.

The Chief Investment Officer has established the Portfolio Resilience Committee (PRC) to ensure that appropriate policies, procedures and governance are in place for the investment portfolio to withstand medium to long-term risk events. The PRC is chaired by the Chief Investment Officer and includes the Chief Risk Officer and senior members of the investment team as committee members. The Chief Executive Officer, Chief Investment Officer and Head of Responsible Investment provide updates at least annually to the Investment Committee and Board on progress in implementing the Fund's Climate Action Plan.

Figure 5 illustrates Sunsuper's climate-change governance framework.

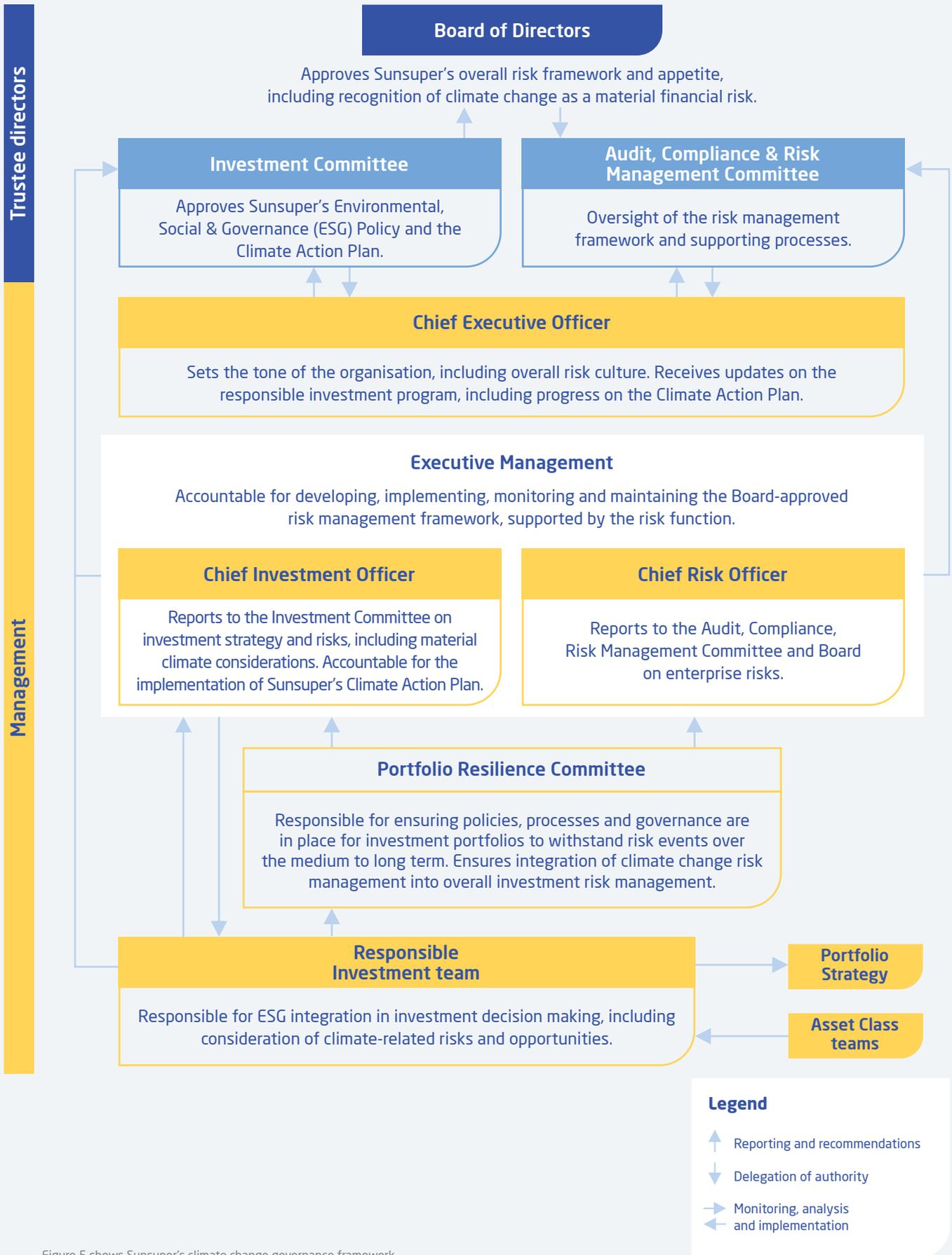


Figure 5 shows Sunsuper's climate change governance framework.



Strategy

TCFD recommendations:

- A** *Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.*

- B** *Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.*

- C** *Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.*

Within the scientific community the debate has long been settled: the scientific evidence in support of climate change is overwhelming. For investors, climate change poses material investment risks, but also opportunities. The risks can be managed or avoided, and the opportunities are there to be taken.

Globally, policymakers are a long way from adopting strong, coordinated actions to effectively manage climate change. Nonetheless, it is clear to us that the Paris Agreement lower-bound aim of keeping global warming to 1.5°C is critical to maintain the orderly functioning of economies and, ultimately, to maximise members' retirement outcomes.

Sunsuper’s identified investment climate risks

Sunsuper considers the investment risks from climate change to fall into two broad categories: transition risks and physical risks.

Transition risks arise from the transition to a low-carbon economy. Risks include:

Policy - the development of laws aimed at reducing the risk of further anthropogenic climate change.

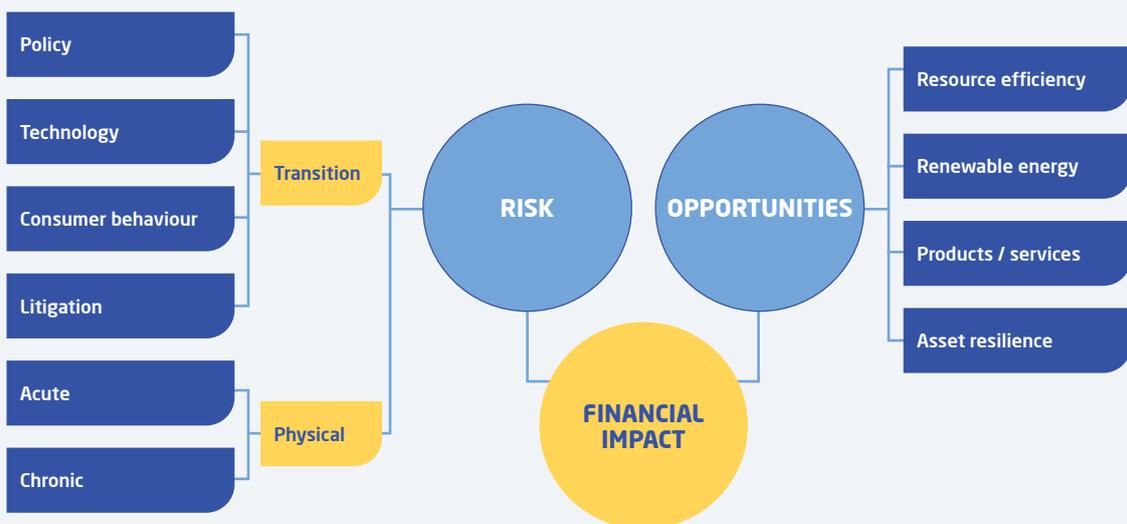
Technology - the lost revenues and stranded assets resulting from disruption via technology supporting a low-carbon economy.

Consumer behaviour - the changes in demand from consumers intent on reducing their own carbon footprint.

Litigation - business disruption and penalties resulting from litigation against organisations that fail to mitigate or adapt to climate change.

Physical risks are damages and impacts arising from event-driven (acute) or longer-term shifts (chronic) in climate patterns.

Figure 6 shows the process in which Sunsuper identifies investment risks and opportunities relating to climate change.



Source: Sunsuper, adapted from TCFD Recommendations
Figure 6: Climate-related investment risks and opportunities

Our expectation is that the threat of climate change will cause:

More and heavier regulation

Regulation aimed at reducing greenhouse gas pollution (including through taxation) is slowly but surely finding its way into the policy books of a growing number of countries. We expect that the continued implementation and expansion of regulation is likely, despite that Australia has so far not reached political agreement on such policy.

Changes to consumer preferences

The general public are voting with their wallets and changing the products and services they consume. In Norway, for example, electric vehicles accounted for over **50 per cent** of new car sales in 2019¹. Similarly, the proportion of households switching to green energy, both in Australia and abroad, is rapidly increasing.

Adoption of new technology

The cost of renewable energy has reached parity with fossil fuels, and the cost of storage is falling at such a pace that the "reliability question" being asked of renewables is quickly being answered. The mass rollout of wind and solar in Europe will see production costs fall further, making energy-transition choices relatively simple - even on purely economic grounds.

Whether these changes will be adopted with enough speed and in sufficient magnitude to achieve the Paris Agreement objectives is highly uncertain. The TCFD suggests that when reporting on climate change metrics, companies and investors model a range of temperature-warming scenarios that could occur.

¹IEA tracking report June 2020, electric vehicles.



Scenario analysis

Leveraging the En-ROADS Climate Change Solutions Simulator developed by climate and dynamic system specialists from MIT Sloan, Sunsuper has analysed a range of plausible climate-change scenarios and policy responses. There are four temperature-warming scenarios we use as examples of the different outcomes that could be achieved. The scenarios reflect different levels of urgency, policy actions and outcomes. These are shown in figures 7 and 8.

Figure 7 Global CO₂ emissions

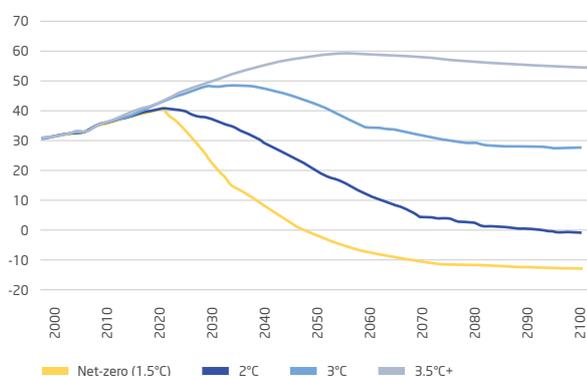
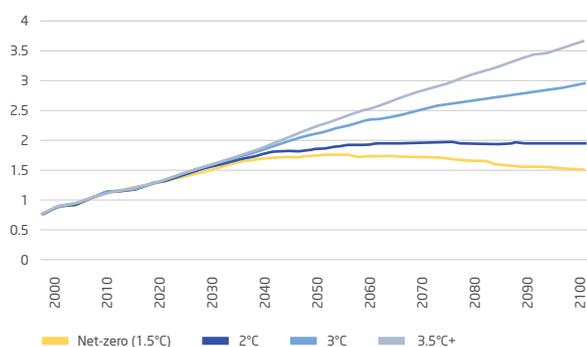


Figure 8 Global temperature outcomes



The scenario of most interest is the one that shows net carbon dioxide levels falling to zero by 2050 (figure 7). This net-zero outcome warrants serious consideration for several reasons:

- It limits warming to 1.5°C, the lower-bound target as articulated by the Paris Agreement, which is predicted to avoid the most devastating effects of global warming on the portfolio.
- It is the scenario that policymakers, companies and investors are coalescing around. Countries including Japan, the UK, France and New Zealand and companies such as BHP and Commonwealth Bank have all set this as their ambition.
- The model estimates the emissions reductions required by 2030 and 2040 in order to reach net-zero by 2050. Under the modelling we use, emissions must fall around 40 per cent in the next decade in order to stay on track for net-zero by 2050. By 2040, most of the heavy lifting must be complete, with a 75 per cent reduction by the end of that decade.
- Finally, the model delivers potential outcomes for the most affected industry - energy - which we have used to inform how aligned our energy-financing activities are to net-zero 2050 scenarios.

What is the En-ROADS simulator?

En-ROADS is a transparent, freely available policy simulation that models how changes in the energy, economic and public policy systems could affect greenhouse gas emissions and climate outcomes. En-ROADS is a system dynamics model based on the MIT PhD theses of Dr John Sterman and Dr Tom Fiddaman and models scenarios to limit future global warming. It considers delay times, progress ratios, price sensitivities, historic growth of energy sources, and energy-efficiency potential.



Risk management

TCFD recommendations:

A

Describe the organisation's processes for identifying and assessing climate-related risks.

B

Describe the organisation's processes for managing climate-related risks.

C

Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

Sunsuper considers investment risks, including climate-related investment risks, throughout the investment process from opportunity identification, due diligence, manager selection and appointment, asset management, monitoring to exit.

Pre-investment

Environmental, social and governance considerations are embedded into Sunsuper's investment recommendation approval process and consider the investment manager's existing climate-risk management capability and future development plans. Where data is available and climate risks are material for the investment opportunity, we seek to quantify the exposure to carbon regulation, technological disruption and shifting consumer preferences.

For private market investments, the asset class teams work collaboratively with the Responsible Investment

team to identify climate-change risks on a deal-by-deal basis. Examples of factors we consider include energy efficiency and consumption patterns, future demand for the product or service, vulnerability to physical risks such as sea level rise and flooding, and the ability of the asset to withstand extreme and chronic climate events.

For public market investments, we assess the sample portfolio's relative carbon footprint and the strategies the manager employs to manage climate risks, such as valuation adjustments and active engagement with investee companies.

Post-investment

Quantifying climate risks is inherently challenging as there is significant variability in the impact of and timeframe over which risks may emerge due to the wide range of possible futures and policy responses. Despite these challenges, we have developed a Climate Risk Dashboard to understand where climate risks may be concentrated in the portfolio and to monitor progress over time in support of the net-zero 2050 portfolio ambition. We monitor macro indicators such as the **MSCI ACWI IMI Net Zero Tracker**, a tool to gauge the progress of public companies' efforts to manage global warming, as well as Sunsuper's greenhouse gas footprint across asset classes and infrastructure and property GRESB assessments, which are reported in the *Targets and metrics* section of this report.

Within our public equity investments, we leverage the greenhouse gas footprint analysis outlined later in this report to identify companies to prioritise for active engagement. Climate change has been a key engagement priority for Sunsuper for a number of years, and we have recently expanded the list to include a wider range of companies, where we have identified an exposure to material climate risks. Within our direct and collaborative engagement activities, we focus on encouraging stronger climate-risk responses, decarbonisation strategies and public disclosures from investee companies.

At the total-portfolio level, climate-related risk management is collaboratively monitored between the Responsible Investment and Investment Risk teams. As per other investment risks, updates are provided to senior and executive management, the management-level Portfolio Resilience Committee and the board-level Investment Committee.

Future plans

Tools to measure and manage climate-related investment risks and opportunities are rapidly evolving and we are conscious of the need to continuously refine our approach. We participate in conferences, webinars and discussions with leading asset managers to remain abreast of emerging climate-risk analytics and methodologies.

The Responsible Investment team is collaborating with the Portfolio Strategy and Investment Risk teams to evolve our existing portfolio-wide, climate-related stress tests, and to consider how climate-related risks and opportunities could be integrated into a climate-aware asset allocation process.



Centauro Energia, Sunsuper investment since 2019.

Metrics and targets

TCFD recommendations:

- A** *Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.*
- B** *Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas emissions, and the related risks.*
- C** *Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.*

Greenhouse gas emissions footprint

Sunsuper has been monitoring the absolute owned emissions and carbon intensity of our listed shares portfolio for a number of years (see appendix for definitions of Scope 1, 2 and 3 emissions).

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

Table 1 shows the carbon footprint metrics of Sunsuper's listed shares portfolio against its benchmark as of 30 June 2021.

	Portfolio	Benchmark
Weighted Average Carbon Intensity (tCO ₂ e/\$m revenue)	180	180
Absolute Emissions (tCO ₂ e)	4,330,616	3,824,931
Carbon Footprint (tCO ₂ e/\$m invested)	92	81

Table 1: Sunsuper's listed shares portfolio and benchmark carbon metric. As of 30 June 2021. Appendix: methodology ESG Ratings and data provided by: MSCI ESG Research LLC

ESG Ratings and data provided by:



MSCI ESG Research
LLC

Our 2021 analysis indicates that the carbon intensity of Sunsuper’s listed shares portfolio is approximately 30 per cent lower compared to 2019. There have been two primary drivers of this reduction. Firstly, total portfolio positioning in carbon-intensive names has reduced and we are implementing initiatives within our mandates to ensure our external investment managers monitor portfolio carbon exposure and remain within Sunsuper’s designated limits.

Secondly, the COVID-19 pandemic, and associated lockdowns to halt the spread of the virus, created disruptions to economic activity and resulted in lower greenhouse gas emissions across broad sections of the economy as evidenced in the sharp decrease in benchmark emissions between 2019 and 2020. As countries begin to open up and economic activity resumes to full capacity, we expect to see a rebound in the benchmark’s greenhouse gas emissions in future years, before declining towards 2030 as companies increasingly implement and realise their decarbonisation initiatives.

Figure 9 shows the reduction in carbon intensity across Sunsuper’s listed shares portfolio since 2019.

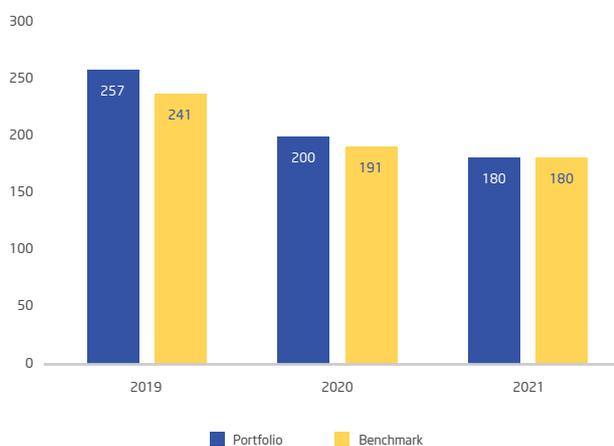


Figure 9: Sunsuper’s carbon intensity over time (tCO2e/\$m revenue). Source: ESG Ratings and data provided by MCSI ESG research. Appendix: Carbon footprint methodology.

Sunsuper has undertaken an analysis of the sources and drivers of our listed shares carbon footprint to identify companies and sectors that may potentially face disruption from climate transition risks such as carbon pricing and other regulations. Figure 10 compares the weights of the materials, utilities, energy and industrial sectors of our listed shares portfolio to their corresponding sector contribution to portfolio weighted average carbon intensity.

These four sectors represent approximately 27 per cent of the total market value of Sunsuper’s listed shares portfolio, yet they account for approximately 86 per cent of Sunsuper’s Weighted Average Carbon Intensity (WACI) footprint. Emissions-intensive sectors face a range of potential risks in the transition to a low-carbon economy such as increased regulation, shifting consumer preferences and technological disruption, which may impact their future profitability. As a result of analysing the primary drivers of our carbon footprint, we have identified companies to prioritise for targeted, direct engagement to ensure they are managing these risks and have plans in place to decarbonise their activities. Within these sectors some companies may face risks of asset stranding and therefore investment decisions may need to be made where company transition plans do not meet our expectations.

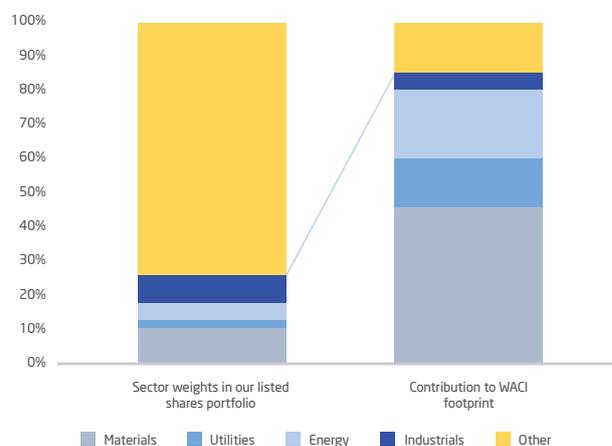


Figure 10: Sunsuper 2021 Weighted Average Carbon Intensity (WACI) breakdown.

Challenges and limitations

Despite the limitations below, we remain committed to measuring the carbon exposure of our portfolio as it provides a useful lens through which to consider the climate risk of our investments. In line with best practice, we will continue to explore emerging data sources, metrics and methodologies to complement this analysis and continue to deepen our understanding of our investments' climate risk and opportunities.

We recognise the limitations of this analysis:

Data quality

Corporate reporting of greenhouse gas emissions data is not required by law in many jurisdictions, including Australia, and we rely on companies voluntarily calculating and disclosing their emissions in line with best practice. This leads to situations of missing or unaudited data and presents a challenge for Sunsuper when trying to capture the total portfolio carbon exposure. Fortunately, our carbon emissions data provider has developed an estimation model for companies who have not reported; however, we do acknowledge that it may differ from actual emissions.

Completeness

Our current portfolio footprinting focuses on Scope 1 and 2 emissions as these are most widely reported by companies and we have broad confidence in our calculated portfolio metrics. Total value-chain emissions (Scope 1, 2 and 3) are useful to consider the true environmental impact of a product or service; however, including Scope 3 emissions presents a challenge for investors as the data is incomplete and inconsistent. Through our engagement activities, we continue to encourage reporting on Scope 3 emissions (see appendix for definitions of Scope 1, 2 and 3 emissions).

Timeliness

Lags exist between companies' financial year end and the availability of a critical mass of portfolio greenhouse gas emissions data.

Proxy for climate risk

Carbon footprinting is a useful but naïve proxy for climate risk as it is inherently backward looking (reported historical emissions are used) and does not consider physical risks or other climate-transition risks such as technological disruption or consumer behavioural changes.

Applicability to other asset classes

The measures we have adopted use the ownership approach to calculating portfolio emissions, which does not readily translate to debt-based asset classes such as fixed income and private credit. More recently, the Partnership for Carbon Accounting Financials (PCAF) has recommended measuring financed emissions as an alternative metric as it facilitates a whole-of-portfolio approach. We are considering the merits and limitations of this approach and look forward to sharing more information in subsequent reporting.



Property and infrastructure asset classes

In collaboration with our asset managers and operating partners, Sunsuper assesses our property and infrastructure assets' environmental, social and governance characteristics to strengthen operating efficiencies, retain competitive positioning of our investments, and enhance marketability for future asset sale. In 2020, we continued our annual GRESB assessment of the sustainability performance of our property and infrastructure portfolios against global peers.

GRESB is the preeminent global benchmark for sustainability in real estate and infrastructure investments, assessing real asset performance against eight sustainability aspects and more than 70 indicators. Sunsuper is targeting 90 per cent+ participation in GRESB across our core property and infrastructure portfolios by 2030.

Despite reduced GRESB participation in 2020 due to the COVID-19 pandemic disruption, our property portfolio outperformed the GRESB global average (Sunsuper: 78 vs GRESB average: 70), as shown in figure 11.

Figure 11 shows how Sunsuper's property and infrastructure assets meet the GRESB sustainability performance against the GRESB average.

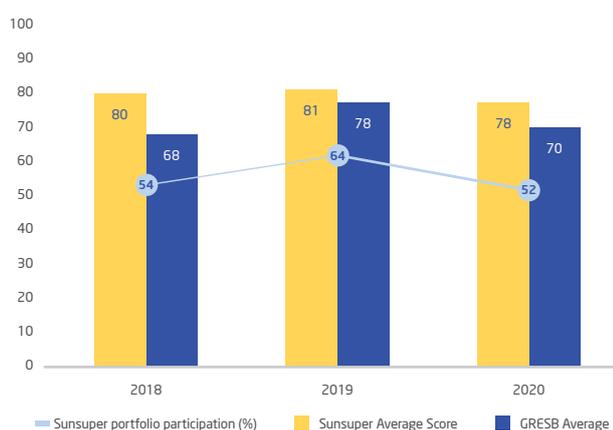


Figure 11: Sunsuper property portfolio GRESB score

Appendix: Carbon footprint methodology

In 2020, GRESB adjusted its assessment methodology to improve data quality and adjust the score weightings for a greater focus on performance indicators (energy, emissions, water, waste, etc). The methodology reset resulted in the GRESB benchmark average score falling from 78 in 2019 to 70 in 2020. As the assessment methodology has changed, the results from 2020 are not directly comparable to prior years; however, we have included them for completeness.

Within the infrastructure asset class, Sunsuper has investments in several sectors that were significantly impacted by COVID-19 such as airports and seaports. Accordingly, the participation rate of Sunsuper's infrastructure portfolio in the annual GRESB assessments declined and did not meet our internal target participation rate. We conducted one-on-one ESG deep dives with our material infrastructure assets during 2021 and re-iterated our support for continued GRESB participation to our external managers. Our infrastructure portfolio GRESB score is shown in figure 12.

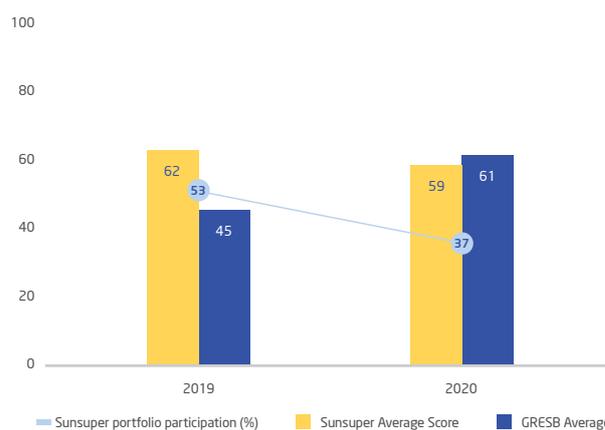


Figure 12: Sunsuper infrastructure portfolio GRESB score

Appendix: Carbon footprint methodology

Looking forward, we remain committed to increasing sustainability performance and transparency within our investments and are engaging with our investment managers to drive reductions in electricity consumption, greenhouse gas emissions, waste, and water consumption at our assets.

Reflections and the path ahead

2020 marked the start of a crucial decade for climate action. The transition to a low carbon future will require trillions of dollars of capital investment over the next few decades as we collectively work towards decarbonising the ways we travel, consume energy, produce goods and services, and heat and cool buildings.

The 2020-21 financial year was also a significant year for Sunsuper. We achieved top-quartile investment returns¹ over 1, 3, 5, 7 and 10 years for our flagship Balanced investment option, including a return of 20.7 per cent in the financial year to 30 June 2021, our strongest financial-year return for more than 25 years¹.

The 2020-21 financial year also represented a seminal year of progress in support of our Climate Action Plan to safeguard the investment portfolio from climate change risks. Over the past twelve months, we have:

Adopted interim decarbonisation targets for our investment portfolio.

Reduced the portfolio carbon intensity of the listed shares asset class by approximately 30 per cent since 2019.

Investigated and identified preferred levers to further reduce the portfolio's carbon exposure in support of our decarbonisation trajectory.

Directly engaged with our material portfolio assets on their climate change risks, opportunities and response.

Participated in industry collaborations, like Climate Action 100+, to ensure the most significant greenhouse gas emitters take necessary action on climate change.

Released our Climate Action Statement on our website, in line with our commitment to provide transparency to members.

As stewards of our members' retirement savings, we recognise our obligation to manage climate-related risks and opportunities in our investment portfolio. Over the next financial year to June 2022, we will continue to refine our approach to climate risk management tools such as scenario analysis and stress testing, as well as implement strategies to manage the aggregate carbon exposure in our listed shares investment portfolio. In addition, we are working closely with our private market external managers to progress decarbonisation efforts for our real estate and infrastructure assets.

¹Source: SuperRatings report June 2021.
Past performance is not a reliable indicator of future performance.

“

As stewards of our members' retirement savings, we recognise our obligation to manage climate-related risks and opportunities in our investment portfolio to ensure our members can fulfil their retirement dreams.



Appendix

Carbon footprint methodology

In 2021, we conducted our annual portfolio carbon footprint for the listed shares asset class which represented \$47 billion as at 30 June 2021. 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 ex Australia 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 protocol.

scope 1

Emissions refer to direct emissions from owned or controlled sources

scope 2

Emissions refer to indirect emissions from the generation of purchased 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.

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

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Calculations

The calculations in the table below were informed by 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	$= \sum_i \left(\frac{\text{value of investment}}{\text{issuer's market capitalisation}} \times \text{issuer's Scope 1 and Scope 2 GHG emissions} \right)$
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	$= \sum_i \left(\frac{\text{value of investment}}{\text{portfolio value}} \times \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}}{\text{issuer's \$M revenue}} \right)$



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