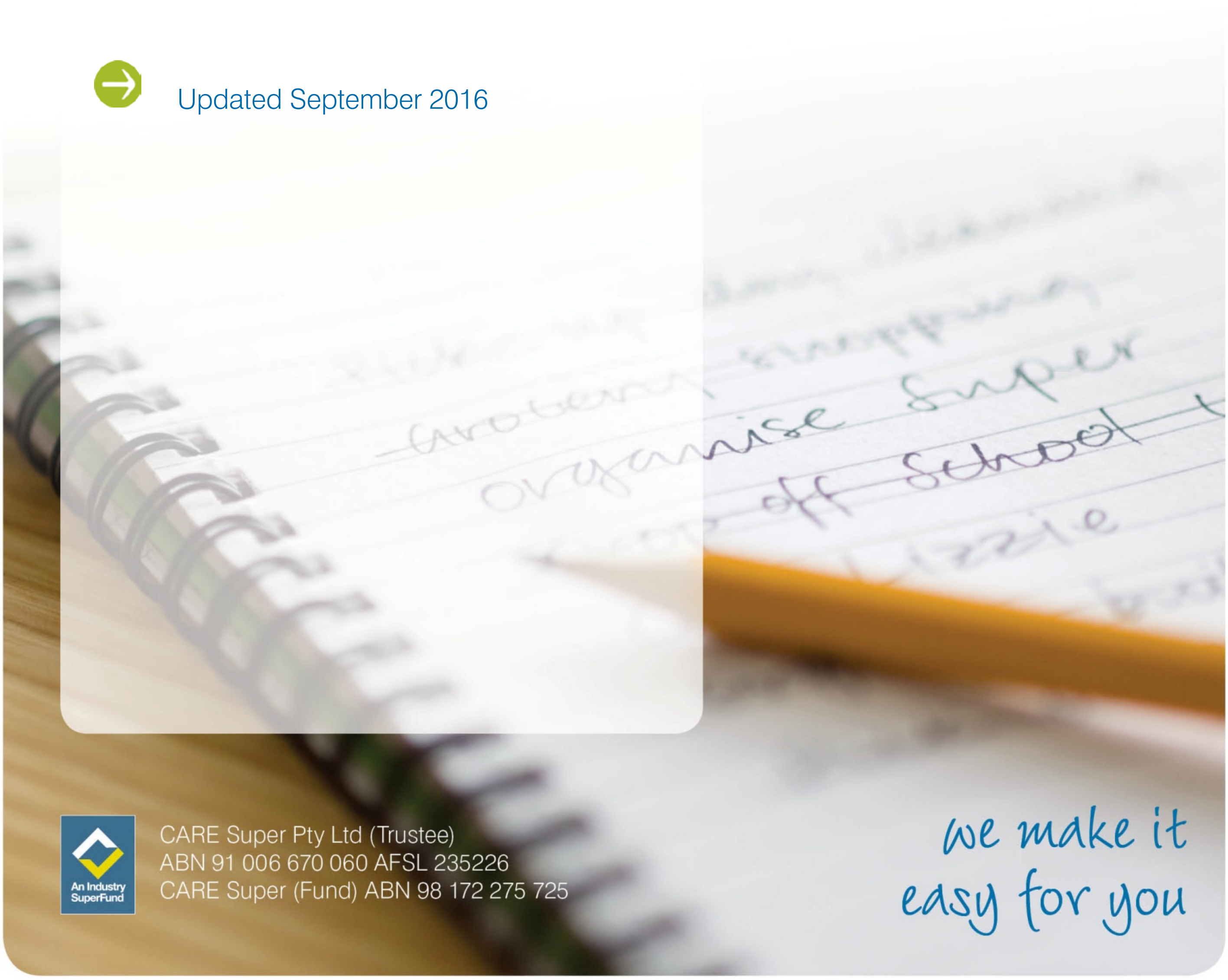
caresuper

CareSuper Responsible Investing Policy

Updated September 2016



An Industry SuperFund

CARE Super Pty Ltd (Trustee)
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1. Introduction

1.1 Background

CARE Super ("the Fund") is a complying superannuation fund under the Superannuation Industry (Supervision) Act 1993 (SIS) and is regulated by both Australian Securities and Investments Commission (ASIC) and Australian Prudential Regulation Authority (APRA). The Trustee, CARE Super Pty Ltd holds a Registered Superannuation Entity licence (RSE) with APRA, enabling it to continue to operate the Fund.

1.2 Purpose

The Policy recognises that the Fund is a long term investor and the Trustee believes that Environmental, Social and Corporate Governance (ESG) issues impact investment performance in both the short and long term. The Trustee believes that consistent returns are supported by a healthy environment, social cohesion, and the good governance of the companies in which the Fund invests. As this Policy applies to all asset classes in which CareSuper invests, it is reflected in the Fund's Balanced Option (MySuper product) and all Choice Options offered by the Fund.

The purpose of this Policy is to describe the Fund's approach to Responsible Investing and the consideration of ESG risk factors in the management of the Fund's investment program. The Policy documents the approach the Trustee employs to address and manage ESG risks, and the application of these processes.

The Policy supports the Fund's *Investment Policy Statement*[1] and should be read in conjunction with the *Investment Governance Framework*.

1.3 Review

This document is effective immediately on adoption by the Board and supersedes all previous versions. The Responsible Investing Policy is reviewed and approved annually, or as required, by the Investment Committee (IC). Material changes are referred to the Board for approval.

1.4 ESG issues

The Trustee believes that material investment risks should be considered as part of the investment process. A wide range of 'E', 'S' and 'G' risks are significant in investing, and the issues of greatest risk vary over time in importance and focus. The Fund may, from time to time, identify focus issues for attention and concentrate manager engagement on specific issues.

A broad definition of key ESG risks is provided below.

Environment: Actions which result in damage to the environment, including but not limited to, pollution and environmental degradation, resource depletion, de-forestation, global warming and climate change and, water and air quality.

For example, climate change is a material risk that will impact economies and financial markets over time. Global warming is expected to have a wide range of consequences, many of which may directly or indirectly impact on the performance of companies, sectors or regions, including:

[1] Formal Policies of the Fund referred to in this Policy are identified by *green italic* format.

- Extreme weather events,
- Changing weather patterns,
- Rising sea levels,
- Legislation, regulation to limit CO2 emissions and/or introduction of carbon pricing, and
- New technology to reduce CO2.

The Fund requires its investment managers to take climate change factors into account when making investment decisions. The Fund works with like-minded investors on climate change and has endorsed the Global Investor Statement on Climate Change (GIC). The Fund supports GIC through participation in the Low Carbon Registry managed by the GIC. The Fund is also a supporter of the Carbon Disclosure Project (CDP).

Social: Actions which result in adverse outcomes in society, including but not limited to, the abuse of human rights, the exploitation of labour, health and safety and adverse impacts on communities.

For example, in recent years the exploitation of labour in the supply chain has gained prominence. Labour practices have had a material impact on the share prices of many companies, particularly those manufacturing in lower cost jurisdictions.

Governance: Actions which result in an adverse impact on the performance and standing of an entity, including but not limited to, excessive board and executive remuneration, bribery and corruption, lack of gender diversity and, legal and regulatory non-compliance.

For example, excessive executive remuneration results in an unfair disparity in compensation across a company's workforce that is detrimental to the long term success of the business. Poor remuneration practices have both an indirect and direct impact on the profitability and value of a company.

All of these matters can impact both the short and long term profitability of an entity and its long-term viability.

2. Regulatory framework, investments

The Trustee acknowledges that its primary duties are to:

- deliver the highest possible risk adjusted return on its investments to its members; and
- assess and manage all foreseeable risk factors, including ESG risks, as effectively as possible.

Other covenants of the SIS Act 1993 on trustees include:

- the requirement to act in the best interest of beneficiaries; and
- the ability of the entity to discharge its existing and prospective liabilities.

In order to discharge its fiduciary duty, all risks involved in the investment process must be acknowledged and managed to the best ability of the Trustee.

3. Guiding principles

The guiding principles set out below assist the Trustee to control ESG risks. The impact of ESG factors is considered at each stage of setting the investment strategy of the Fund.

3.1 Investment philosophy

The Policy and approach to the management of ESG risks is consistent with the Investment Philosophy of the Fund which includes outsourcing investment management and investment decision making to external parties across all asset classes. The Fund manages risk, including ESG risks, through proactive monitoring and assessment of the risk management processes of its appointed managers.

Active management is a key component of Fund's Investment Philosophy because it strengthens the ability of investment managers to mitigate ESG and other risks.

3.2 Active owner

The Fund believes that being an active owner, including exercising voting rights attaching to all shareholdings where possible, is fundamental to effective responsible investment practice.

3.3 Integrated and proactive approach

The Policy aims to achieve the proactive consideration of ESG risks, primarily via integration in investment decision making and fundamental investment analysis. The Trustee recognises that addressing the consequences of ESG risks after they have impacted return or in an ad hoc manner does not produce quality risk control or the objectives of the Policy.

Similarly, the Fund's consideration of the ESG processes of investment managers is an integral part of the initial due diligence undertaken as well as the ongoing monitoring and review process undertaken on all managers by the Fund and the Asset Consultant. This is discussed in more detail in section 5 of this Policy.

3.4 Practical application

The Fund adjusts the implementation of the Policy to take account of the inherent practical differences between asset classes, sectors and investment vehicles.

3.5 Transparent and consistent

Clear and consistent application of Policies is central to quality investment processes. The transparent, clear and repeatable application of the Policy enhances the Fund's control of ESG risks and assists in effective communication of the Policy and its aims.

4. Engagement and collaboration

The Fund participates in engagement programs on material ESG issues because, like ACSI, UN PRI and other advocating entities, it believes that engagement with companies is more effective in mitigating ESG risks than divestment.

To that end, CareSuper is a member of and, active participant in, the following collaborative initiatives:

- Australian Council of Superannuation Investors (ACSI) – CareSuper is a founding member
- United Nations Principles for Responsible Investment (PRI)

- Carbon Disclosure Project (CDP)
- ESG Research Australia (ESG RA)

The Fund also engages and collaborates with investment managers, advisers, major entities in which it invests and like-minded investors.

In addition to these engagement and collaboration activities, the Fund will from time to time undertake projects to review specific ESG risks.

5. Manager selection and monitoring

CareSuper is a 'manager of managers' and integrates ESG assessment into its manager selection, monitoring and engagement process. The Fund assesses the quality of a manager's ESG framework and monitors the application of that framework as part of the manager monitoring and review process.

5.1 Manager selection

CareSuper incorporates consideration of a manager's ESG framework in the due diligence process. The manager's approach and process is documented in all Requests for Proposal (RFPs), considered in interviews and reviews, and forms part of the overall assessment of the manager.

The Fund considers each manager's ESG approach in the context of the asset class and the inherent nature of the investment universe, the investment manager's style and portfolio construction process, the quality of ESG integration compared to similar investment managers and the likely materiality of ESG risks in each manager's investment strategy.

5.2 Manager monitoring and engagement

The Fund monitors and reviews each manager's ESG process, including but not limited to:

- Review of ESG policies and frameworks,
- Assessment of their application in investment selection and portfolio construction,
- Voting and company engagement priorities, and
- Reporting of ESG considerations, recognising the preference for ESG considerations to be integrated in decision making.

5.3 Asset consultant

CareSuper requires advisers and consultants to take ESG risks into account when providing investment advice to the Fund, including in relation to asset allocation and asset class configuration.

The Fund works with the Asset Consultant[2] in conducting due diligence during manager selection and ongoing performance monitoring and review.

[2] The Board appoints an external adviser to provide specialist investment advice and analysis to the Fund, referred to in this Policy as the Asset Consultant.

5.4 Investment restrictions

While managers are generally not precluded from investing in entities with ESG risk, they are required to factor those risks into their investment decisions, in order to make an integrated assessment of risk and return.

However, in considering its responsibilities and commitment to members, CareSuper has adopted a policy to exclude tobacco manufacturing companies from its investment portfolio, where possible. The Fund excludes listed tobacco manufacturers from all separate listed share portfolios and actively engages with managers of pooled investments with the aim of achieving this result.

Equities managers in the Sustainable Balanced Option are required to favour industries and companies that are expected to achieve sound investment returns, maintain good social, environmental and governance records and have a sustainable future.

6. Proxy voting

The Fund's Policy is to vote all shares where possible and engage on issues and voting practices when appropriate.

6.1 Australian shares

CareSuper ensures all available votes for ASX-listed companies are cast in a timely and consistent manner. The Trustee subscribes to the Australian Council of Superannuation Investors (ACSI) Voting Alert Service. In principle, the Fund votes in accordance with the guidance of ACSI and while taking account of the views of its investment managers.

6.2 Overseas shares

CareSuper encourages all its overseas shares managers to vote shares in a diligent and considered manner. While it is not possible to direct pooled investment managers to vote, the manager's approach to voting and engagement is an integral part of CareSuper's assessment of the strength of an investment manager's commitment to ESG risk management.

7. Reporting

The Trustee commits to regularly reporting its responsible investment practices including:

- Publication of this Policy on the Fund's website,
- Commentary in the annual report and disclosure documents,
- Member newsletters and communications,
- Making information readily available on the Fund's website, and
- Through reports to third parties such as through the annual assessment report for the PRI.

8. ESG and the Fund

The Trustee commits to business practices and procedures that support the ESG principles described at Section 3.