

Sustainable Investing Bulletin

from TelstraSuper

Half-year ended
30 June 2021



This Bulletin summarises our sustainable investing activities for the year ended 30 June 2021.

Our approach to Sustainable Investment follows the guidelines of the UN Principles for Responsible Investing (PRI), which are:

1

Incorporating Environmental, Social and Governance (ESG) issues into investment analysis and decision-making

2

Active ownership

3

Promoting ESG disclosure by investee companies

4

Advocacy and collaboration

5

Reporting on our activities



TelstraSuper's Sustainable Investment Policy can be accessed [here](#).

Advocacy

TelstraSuper submission to Treasury Consultation on Greater Transparency of Proxy Advice

In June 2021, TelstraSuper [made a submission](#) to the Australian Federal Treasury Consultation on Greater Transparency of Proxy Advice. TelstraSuper's submission identified the role of proxy advice in TelstraSuper's voting process. As outlined in this report and our [proxy voting policy](#), we engage with investee companies on a range of ESG matters and independently exercise our vote for all listed Australian and International shareholdings.

Incorporating ESG issues into investment analysis and decision-making

External Manager Modern Slavery Review

The Modern Slavery Act became effective on 1 January 2019. The Act requires Australian companies to examine their own operations and supply chains to identify, prevent, mitigate and address potential instances of modern slavery.

TelstraSuper considers investment management a part of our operations and supply chain. We, therefore, engage extensively on Modern Slavery with the external managers we have hired. During 2020/21, TelstraSuper surveyed 53 of its external managers to understand how they approach managing the risk of Modern Slavery in their own operations and the investment portfolios they manage on behalf of the fund.



TelstraSuper published its first [Modern Slavery Statement](#) in March 2021.

External Manager Modern Slavery Review Continued

Our analysis revealed that our external managers had developed a reasonable approach to assessing the risk of modern slavery in their own business operations. Many were already incorporating the assessment of modern slavery risk for portfolio companies in their investment processes. Most managers were assessed as being 'low risk' based on procedures in place. In contrast, some emerging market asset managers were assessed as being 'medium risk' given the profile of the geographies and industries in which they invested. 18 of the 53 managers reviewed had published a Modern Slavery Statement under the Australian or UK legislation. Other managers indicated they were developing Modern Slavery Statements or had incorporated requirements into their Supplier Codes of Conduct and investment processes. Future reviews will form part of the regular ESG Investment Review process.

Climate Change Action Plan

In February 2021, the TelstraSuper board adopted a Climate Change Action Plan. Please refer to the Spotlight Focus section for further information.

External Manager Appointment

Three managers were reviewed during the half-year for new or follow-on investment. All of these managers were subsequently appointed.

One new manager was approved in International Equities and two in Private Markets. Our assessment confirmed the approved managers integrate ESG analysis in their investment processes.

Portfolio ESG Analysis

Fund holdings were reviewed to ensure compliance with tobacco, controversial weapon and prime-focus thermal coal exclusions.

Substantial analysis was performed across International and Australian Equities to assess portfolio carbon intensity.

Other ESG Activities

TelstraSuper recruited a Senior Analyst to join the Sustainable Investment team to extend the scope and depth of our Sustainable Investment activities.

Active ownership

Direct Engagement

Australian Listed Companies

TelstraSuper takes an active ownership position which means that we engage with the companies we invest in and vote on decisions at their company meetings.

During the half-year, we engaged with company boards and executives on a range of issues. We had 24 meetings specifically on ESG issues. The following table and chart below summarises these meetings.

ESG meetings held with companies and other stakeholders

Company / 3rd Party	ESG Meetings
Aurizon	1
Bapcor	1
Commonwealth Bank	1
Crown Resorts	1
Dexus	1
Lendlease	1
Macquarie Group	1
National Australia Bank	1
Origin Energy	1
Qantas	1
QBE	1
Rio Tinto	2
Senex	1
Sims Metal	1
Suncorp Group	3
Treasury Wine Estates	1
Westpac	3
Woodside Petroleum	2
Total Meetings	24

Matters discussed with companies

COVID-19	5	<div style="width: 50%;"></div>
Climate Change	3	<div style="width: 30%;"></div>
Governance	7	<div style="width: 70%;"></div>
Modern Slavery	3	<div style="width: 30%;"></div>
Remuneration	11	<div style="width: 100%;"></div>
Social Impact	7	<div style="width: 70%;"></div>
Strategic Update	5	<div style="width: 50%;"></div>
Worker Safety	4	<div style="width: 40%;"></div>

Key ESG matters in focus



Governance

Remuneration Policies

TelstraSuper engaged with portfolio companies on remuneration policies and practices over the past six months, including Bapcor, Lendlease, Macquarie, Qantas, Rio Tinto, Suncorp Group, Treasury Wine and Westpac. Areas of focus were performance hurdles associated with short and long-term incentives, alignment with shareholder outcomes and parity with broader workforce emolument initiatives.

Australian Council of Superannuation Investors (ACSI)

In addition to our own direct engagement, ACSI, of which TelstraSuper is a full member, conducts extensive engagement and research activities on behalf of members. ACSI meets with most Australian listed companies and produces proxy voting advice for AGMs to which TelstraSuper subscribes. Each year ACSI holds over 300 meetings with ASX listed companies on matters including board composition, climate change, diversity, remuneration, worker safety and rights, Modern Slavery, and governance. TelstraSuper attended 17 meetings hosted by ACSI over the past six months. ACSI published research reports on Workplace Equality, ESG Reporting trends, and CEO Pay in the ASX200 during the period. For more detail about ACSI please click [here](#).

ACSI Governance Guidelines Review

TelstraSuper is a member of the ACSI governance guidelines review sub-committee. The review's objective is to update the ACSI Governance Guidelines to ensure they reflect ACSI member funds' current expectations concerning the management of environmental, social and governance risks.

The guidelines will be used by ACSI and its member funds to guide engagement with the Australian listed companies in which member funds invest. The plan is to publish updated Guidelines in November 2021.



Environmental

Climate Action 100+

Climate Action 100+ is a global investor collaboration that engages directly with companies to promote the adoption of the goals of the Paris Agreement. In Australia, 16 companies have been identified by Climate Action 100+ as having material climate-related risks given high scope 1, 2 and 3 carbon emissions. TelstraSuper is a supporting investor of Climate Action 100+. For further information refer to [ClimateAction100+](#).



Social

Modern slavery and human rights in the supply chain

Over the past six months, direct engagement was undertaken with several companies to understand how they identify, manage and report the risk of modern slavery in their own operations and supply chains. These companies included Bapcor, Sims and Treasury Wine Group. The outcome of our engagement was commitment from the companies to provide further information on how they undertake supply chain analysis and what actions result in future Modern Slavery Statements that are published.

COVID-19

TelstraSuper has been engaging with companies concerning their approach to the ongoing pandemic. Areas of key importance have been worker and customer safety, governance and remuneration outcomes.

Promoting ESG disclosures by investee companies

TelstraSuper provides feedback to companies on ESG disclosures in their various reporting documents where appropriate. This half-year feedback was provided to Bapcor, Treasury Wines, and Westpac on sustainability and Modern Slavery reporting. All of these companies were appreciative of insights provided and committed to further develop and refine their public reporting.

Other recurring engagement topics include: climate change; worker safety; board capability and tenure; company strategy; waste and recycling; cyber-security; and offshoring/outsourcing.

Proxy voting

As an active owner, TelstraSuper seeks to exercise all proxy votes for listed Australian and international shareholdings.

TelstraSuper maintains a Proxy Voting Dashboard that provides a high-level summary of voting activity and detailed information on how we voted on every resolution at company meetings.



The TelstraSuper Proxy Voting Dashboard can be accessed [here](#).

Advocacy and collaboration

TelstraSuper recognises the power that collaboration can have in getting the best outcomes for investors. We have several strategic partnerships and regularly work with the wider industry to build our influence.

TelstraSuper is an active member of the following organisations:



Joined Member Council
June 2020



Member of the Physical Risk
and Resilience Working Group



Over the past six months, our Head of Sustainable Investing has participated in several events that promote sustainable investing. These included:

- Chairing the AFSA Conference on ESG Integration
- Presenting as a panel member at an IGCC Masterclass on Climate Change Plan development.
- RIAA 2021 Conference
- IGCC Working Group Meetings
- Climate Action 100+ Working Group

We also attend briefings that cover a wide variety of Sustainable Investing issues. Topics have included:

- Indigenous cultural engagement
- Climate and carbon risk
- Sustainable finance
- Climate-related financial reporting
- Impact investing
- Investing in line with the UN Sustainable Development Goals
- Renewable energy investing

TelstraSuper also holds informal dialogue with our peers on a broad range of matters that assist with our understanding of sustainable investing issues.

Reporting on our activities

In addition to this Bulletin, TelstraSuper members can read about our stewardship activities on our dedicated Sustainable Investment page on the TelstraSuper website.



This Sustainable Investment page can be accessed [here](#).

We also produce videos and news articles for members on activities on an ad-hoc basis and share information through our quarterly member newsletter. We also respond to member queries relating to climate change and other matters via our member contact centre.

Spotlight on...

TelstraSuper's Climate Change Action Plan



In February 2021, TelstraSuper adopted its [Climate Change Action Plan](#). It has three specific goals:

- 1 Achieve Net-Zero Greenhouse Gas Emissions by 2050, aiming for a 45% reduction by 2030.
- 2 Proactively invest in opportunities that are expected to be net beneficiaries of the transition to a net-zero emissions world.
- 3 Build portfolio resilience to the physical impacts of climate change across asset classes

To achieve our goals, TelstraSuper has developed a 5-Pillar Climate Change Plan with 25 Actions

This spotlight piece reviews our progress on implementing the plan to date. While we still have a lot of work to do and achieving the Plan's goals are a continuing journey, we are pleased that we have made a great start on implementing 16 of the 25 planned actions in the first six months.

Key:

- ✓ Executed
- ➔ In progress
- 📄 Work plan developed



Governance and behaviour

Actions	Timeline	Progress to target
1. Investment Committee oversight and Board approval of the Plan, with annual review	2021	✓ The board approved the plan in February 2021, and the Investment Committee receives regular updates on implementation.
2. Update all investment and climate change policies and purpose statements to reflect the Plan	2021/22	✓ The Sustainable Investment Policy was updated to reflect the Climate Change Plan in August 2021.
3. Review incentives to align with the goals of the Plan	2021/22	➔ Achievement of plan actions are being built into Investment team performance objectives for the 2021/22 financial year.
4. Bolster resources to implement the Plan	2021	✓ A Climate Change portfolio manager responsible for the ongoing stewardship of the plan has been recruited and commences in October 2021.
5. Include climate change training in management, staff Board and Investment Committee skill matrices	2021/22	➔ Several Investment Team members undertook a Climate Change Education Programme developed by Columbia University on behalf of Alliance Bernstein.
6. Adopt and implement net-zero operational emissions for TelstraSuper's own activities	2021	✓ In June 2021, TelstraSuper's business operations were certified carbon neutral by Climate Active for the 2020/21 financial year.



Portfolio construction

Actions	Timeline	Progress to target
7. Update climate change scenario analysis on an annual basis, including a Net-Zero Emissions scenario	2021/22	Work plan developed
8. Review potential portfolio construction initiatives to manage climate risk exposures	2021/22	Work plan developed
9. Invest in low carbon opportunities or other opportunities that are expected to benefit from a transition away from fossil fuels	Ongoing	TelstraSuper has made two investments over the past six months. The first was in a long-short international equities hedge fund that creates a net-negative carbon footprint while aiming to deliver above benchmark returns. The second was an investment in the Powering Australian Renewables (PowAR) partnership that acquired Tilt Renewables' Australian renewable energy assets.
10. Divest from pure-play thermal coal producers	2021/22	In June 2021, TelstraSuper divested from and excluded all "prime-focus" thermal coal producers from its listed equities portfolios.
11. Amend passive benchmarks to reduce greenhouse gas emissions in Australian and International listed equity holdings	2021/22	TelstraSuper has excluded prime focus thermal coal producers from its passive benchmarks for Australian and International equities and is analysing the potential for further carbon optimisation.
12. Analyse physical impact risks of the portfolio	Ongoing	Work plan developed



Mandate design & manager selection

Actions	Timeline	Progress to target
13. Update guidelines for external mandates to incorporate climate change expectations	2021	Work plan developed
14. in-house management processes to incorporate climate metrics	2021/22	We are monitoring the emissions profile of our internally managed Australian equities portfolios every quarter.
15. Evolve external manager selection criteria to incorporate climate goals	2021/22	Work plan developed
16. Enhance external manager review criteria to incorporate climate goals	2021/22	Our external manager review framework incorporates a review of the emissions profile of assets under management, and where applicable, the steps managers are taking to reduce this risk.
17. Review managers and mandates that are not prepared to commit to TelstraSuper's Climate Change objectives	Ongoing	Work plan developed



Engagement & stewardship

Actions	Timeline	Progress to target
18. Engage with external managers, encouraging adoption of net-zero emissions by 2050 goal	Ongoing	✓ We have commenced engagement with our external managers on this plan and encourage the adoption of net-zero emissions. We are pleased that several of our external asset managers and service providers are members of the Net-Zero Asset Managers Initiative .
19. Engage with highest risk companies via CA100+ and through direct engagement	Ongoing	✓ As reported elsewhere in this Bulletin, we continue to engage with the highest risk companies via Climate Action 100+ and direct engagement.
20. Participate in public policy advocacy (ACSI, IGCC, PRI)	Ongoing	✓ We continue to participate in public advocacy through our partnerships with ACSI and IGCC.
21. Align proxy voting outcomes on climate-related resolutions	Ongoing	📄 Work plan developed
22. Engage with service providers to encourage adoption of net-zero emissions by 2050 goal	2021	📄 Work plan developed



Disclosure

Actions	Timeline	Progress to target
23. Disclose in alignment with TCFD recommendations across all asset classes	2021	📄 Work plan developed
24. Collaborate to improve industry-wide disclosure and action, including participating in the Climate League 2030 initiative	2021	✓ Climate League 2030 is an initiative facilitated by the Investor Group on Climate Change to bring together organisations across the private sector to support and act towards Paris-aligned emissions reductions for Australia by 2030. TelstraSuper signed on to the initiative in May 2021. Consistent with our Climate Change Action Plan, we pledge to take at least one new action each year to contribute towards our emission reduction targets and report on progress and impact.
25. Incorporate our climate change actions and outcomes into member communication and engagement	Ongoing	✓ We have incorporated our climate plan actions into member communications such as this Bulletin and provide further information on our website .



Download a copy of the [Climate Change Action Plan](#)