



Sustainable Investing Bulletin

from TelstraSuper


Half-year ended
31 December 2020



This Bulletin summarises our sustainable investing activities for the half-year ended 31 December 2020.

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 ESG disclosure by investee companies
- 4 Advocacy and collaboration
- 5 Reporting on our activities

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

Incorporating ESG issues into investment analysis and decision-making

External Manager Selection and Monitoring

- Ten managers were reviewed during the half-year for new or follow-on investment. Nine of these managers were subsequently appointed or recommended.
- One new manager was approved in International Equities, six in Private Markets and two in Real Assets. Our assessment confirmed the approved managers integrate ESG analysis in their investment processes.
- A comprehensive review was also undertaken on four incumbent managers across International Equities, Private Markets and Property. All managers were assessed as having sound ESG integration practices.
- These reviews involve validating the manager's integration of ESG activities into its investment process and discussing key portfolio holdings.
- ESG matters covered with incumbent managers included corporate governance, culture, voting activity, climate change and modern slavery.

Internal Investment Management

Australian Equities

- The Australian Equities & Sustainable Investing Team continued to build out its ratings of the Top 200 listed companies on the ASX using our in-house ESG assessment tool.

Fixed Income

- Met with several sustainable finance issuers to assess new opportunities.

Portfolio ESG Analysis

- Reviewed fund holdings to ensure compliance with tobacco and controversial weapon exclusions.
- Carried out substantial analysis across International and Australian Equities to assess portfolio carbon intensity.

Other ESG Activities

- Commenced the development of a Climate Change Action Plan for the Investment Portfolio. The Board subsequently adopted this Plan in February 2021. More information will be shared with members shortly.
- Preparation of TelstraSuper's first Modern Slavery Statement with respect to the Fund's Investment activities which will be published in March 2021.
- Responded to member queries relating to climate change and other matters.

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.

We engaged with company boards and executives and other key stakeholders on a range of issues during the half-year. We had 48 meetings specifically on ESG issues. The table and chart opposite summarises these meetings.

Collaborative Engagement

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. 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. ACSI published reports on Climate Risk Transition and COVID-19 responses during the half-year.



For more detail about ACSI please click [here](#).

Externally Appointed Managers

TelstraSuper's externally appointed managers also engage with investee companies and assets. We obtain regular feedback from our appointed managers on these engagements.

ESG meetings held with companies and other stakeholders

| Company / 3rd Party | ESG Meetings |
|------------------------------|--------------|
| AGL | 2 |
| AMP Group Ltd | 1 |
| ANZ Banking Group | 3 |
| Ausbrokers Group | 1 |
| Bank of Queensland | 1 |
| BHP Billiton | 4 |
| Boral Ltd | 2 |
| Coles Group | 1 |
| Commonwealth Bank | 1 |
| Crown Resorts | 1 |
| Dexus | 1 |
| Fortescue Metals Group | 2 |
| Insurance Australia Group | 1 |
| James Hardie | 1 |
| JB Hi-Fi | 1 |
| Link Group | 1 |
| Macquarie Group | 1 |
| National Australia Bank | 3 |
| Northern Star Resources | 1 |
| Origin Energy | 1 |
| Qantas | 2 |
| Qube Logistics | 1 |
| Rio Tinto | 2 |
| Senex | 1 |
| Sims Metal | 1 |
| Suncorp Group | 2 |
| Telstra | 2 |
| Transurban Group | 2 |
| Treasury Wine Estates | 1 |
| Western Australian Treasurer | 1 |
| Westpac | 2 |
| Woodside Petroleum | 1 |
| Total Meetings | 48 |

Matters discussed with companies

| | |
|------------------|----|
| Climate change | 10 |
| COVID-19 | 12 |
| Governance | 23 |
| Modern slavery | 8 |
| Remuneration | 21 |
| Social impact | 23 |
| Strategic update | 13 |
| Worker safety | 14 |

Spotlight on...

Rio Tinto Juukan Gorge Incident

RioTinto

TelstraSuper engaged with Rio Tinto directly and in collaboration with ACSI and other institutional investors on the destruction of rock shelters at Juukan Gorge in Western Australia, a significant cultural heritage site of the Puutu Kunti Kurrama and Pinikura people (PKKP).

TelstraSuper co-signed a letter to the Board of Directors of Rio Tinto with ten other institutional investors expressing our joint concerns on the circumstances that led to the destruction of the Juukan Gorge rock shelters and the subsequent handling of the incident. We considered that these decisions reflected a failing of governance and corporate culture within Rio Tinto, which, if not adequately addressed, would likely have a detrimental impact on the long term value of the company.

TelstraSuper was deeply disappointed that the Juukan Gorge incident could occur at all. While we acknowledge the company acted legally and that a series of decisions in previous years contributed to the outcome, it was our view that this did not abdicate responsibility from the company given the site's cultural significance. We believe the breakdown in understanding of the site's meaning to the PKKP and the lack of transparency around the mine plan's impact should have been avoided.

The magnitude of the event, both the destruction of a unique site of the utmost cultural and archaeological significance to both traditional owners and the broader Australian community, and the significant failure of process called for a proportional response to demonstrate appropriate accountability and establish precedents that would improve business practices, drive cultural change and embed higher standards within the business.

The incident, combined with its handling, revealed cultural issues within the company, notably a deterioration in both an understanding of and value placed on heritage management and relations with traditional owners, threatening Rio Tinto's social licence to operate.

Outcome

Following engagement with TelstraSuper and other institutional investors and on considering the findings of the Australian Parliamentary Inquiry into the incident, the Rio Tinto board implemented a series of actions to begin to address this serious matter and prevent an incident such as this from happening again. These actions included:

- 1 The Board determined that the Group Chief Executive Officer, the CEO of the Iron Ore business and the Chief Communication Officer would leave the company.
- 2 Operational management was empowered with the responsibility for cultural heritage management and indigenous owner relationships.
- 3 An integrated heritage management process was developed, resulting in the classification of over 1,000 cultural heritage sites being reviewed to protect and enhance their status.
- 4 Traditional landowners were consulted on the creation of an indigenous advisory group intended to bring indigenous voices into the senior leadership and oversight of the business in Australia.
- 5 Improved board oversight on Australian cultural and governance matters via the appointment of an Australian based Senior Independent Director.
- 6 The Chairman of Rio Tinto advised that he will not seek re-election at the 2022 AGM, acknowledging ultimate accountability for the Juukan Gorge destruction.

TelstraSuper considers these actions to represent reasonable first steps and will continue to seek clarity and transparency on cultural heritage management from Rio Tinto.

Key ESG matters in focus



Environmental

Cultural Heritage Management

Following the announcement by Rio Tinto of the destruction of significant cultural heritage sites at Juukan Gorge, as part of an ACSI collaboration, TelstraSuper engaged with Rio Tinto, BHP Billiton and Fortescue Metals Group to ascertain the cultural management capabilities that have been developed by these organisations, consistent with their commitments to operating in accordance with the UN Declaration on the Rights of Indigenous Peoples. All companies had undertaken extensive reviews of practices and capabilities and were implementing change. We look forward to furthering disclosure from and engagement with these companies on this important matter.

Climate Action 100+

Climate Action 100+ is a global investor collaboration that engages directly with companies to promote adoption of the Paris Agreement goals. 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

The Modern Slavery Act became effective on 1 January 2019. Modern slavery refers to workers' exploitation, including forced labour, intimidation, violence, confiscation of passports or debt bondage. The Act requires Australian companies to examine their own operations and supply chains to identify, prevent, mitigate and address potential instances of modern slavery. Australian companies are required to make an annual statement on their approach.

TelstraSuper is required to produce its own Modern Slavery Statement by 31 March 2021 and considers investment management and the companies in which we invest part of its operations and supply chain. We, therefore, engage extensively with the companies in which we are shareholders on this matter directly, through the external managers we have hired and collaboratively via the investor organisations of which we are a member.

During 2020, direct engagement was undertaken with several of the largest portfolio companies across the telecommunication, aviation, banking and consumer sectors to understand how these companies identify and manage the risk of modern slavery in their own operations and supply chains.



Our Modern Slavery Statement will be loaded to the website by 31 March 2021.



Governance

COVID-19

Throughout the COVID-19 pandemic, TelstraSuper has been engaging with companies about their approach to the pandemic. Areas of key importance have been worker and customer safety, governance, protecting shareholder rights concerning capital raisings, culture and remuneration outcomes.

Remuneration Policies

TelstraSuper provided feedback on remuneration policies and practices to the following companies over the past six months: NAB, Origin Energy, IAG, Link and Commonwealth Bank.

ESG disclosure by investee companies

TelstraSuper provides feedback to companies on ESG disclosures in their various reporting documents where appropriate.

Other recurring engagement topics

- Board capability and tenure
- Waste and recycling
- Cyber-security
- 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. Voting data is available from 1 July 2018 onwards and is up to date.



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:

- Presenting on integrating ESG for asset managers at the Pension Bridge Alternatives Investment Conference
- RIAA 2020 Conference Series
- 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
- Modern Slavery reporting
- Climate-Related financial reporting
- Impact Investing
- Investing in line with the UN Sustainable Development Goals
- Renewable Energy Investing

TelstraSuper regularly holds informal dialogue with our peers on a broad range of matters that assist 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 responsible investment page on the TelstraSuper website.



The responsible 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.