



**Retail Employees Superannuation Trust**

# **Summary of Responsible Investment Policy**

Please note: this is a summary only and does not contain the full details, which are contained in the Rest Responsible Investment Policy.

## 1 Purpose

Retail Employees Superannuation Pty Limited (**Trustee**) is the trustee of the Retail Employees Superannuation Trust (**'Rest' or 'the Fund'**).

As a universal owner and long-term global investor with exposure across different markets, Rest believes that Responsible Investment (RI) adds value.

Rest considers and integrates environmental, social and governance (ESG) factors to reduce risks, improve returns and maximise investment opportunities which supports investment outcomes for members retirement savings.

The incorporation of these financially material factors into the investment decision-making process is integral to fiduciary duty, in ensuring the Trustee acts in members' best financial interests.

The purpose of this Policy is to outline the Trustee's approach to RI and how ESG risks and opportunities are appropriately considered and managed<sup>1</sup>.

## 2 Scope

The Policy applies to the Trustee and employees of the Rest Group. Rest also seeks to engage with its investment managers and investment consultants to ensure consistency in approach, and in addition to any specific mandated requirements.

The Policy applies to the Fund's investments, including:

- a) asset classes, including Australian and International shares, Property, Infrastructure, Alternatives, Debt and Cash;
- b) fund structures, direct, mandated and pooled; and
- c) geographic locations.

## 3 Definitions

The following terms are defined within the context of this policy to assist with its interpretation:

- **Just transition** refers to a deliberate effort to plan for and invest in the transition to environmentally and socially sustainable jobs, sectors and economies, especially as related to jobs affected by the transition to the lower carbon economy.
- **Investment manager** refers to those appointed to invest on behalf of the Fund and may be internal or external to Rest, and includes managers of unlisted funds and managers of assets.
- **Responsible Investment (RI)**: Rest has adopted the Principles of Responsible Investment (PRI) definition for Responsible Investment (RI), 'an approach to investing that incorporates environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns'.
- **Sustainable Development Goals (SDGs)** refers to the 17 goals which are at the heart of the United Nations 2030 Agenda for Sustainable Development, and which are an urgent call for action to end poverty and improve health and education, reduce inequality and spur economic growth; all whilst tackling climate change and working to preserve oceans and forests<sup>2</sup>.
- **Universal owner** refers to large institutional investors are often referred to as 'Universal Owners'; this is because they generally have highly-diversified and long-term portfolios that are representative of global capital markets<sup>3</sup>; effectively holding a 'slice' of the whole global economy and market through their portfolios<sup>4</sup>.

## 4 Rest's approach to Responsible Investment

The Rest Board considers a 'three-lens' approach to evaluate how environmental, social and governance investment decisions may be assessed in the context of achieving members' best financial interests.

These are:

- Member preferences: member expectations as related to ESG issues.
- Risk, return and opportunity: managing investment risks and leveraging opportunities.

<sup>1</sup> ASIC Guidelines provided for in the Corporations Act 2001, s1013DA.

<sup>2</sup> United Nations Sustainable Development: Goals.

<sup>3</sup> Universal ownership: Why environmental externalities matter to institutional investors.

<sup>4</sup> Investment governance and the integration of environmental, social and governance factors.

- Community expectations: the level of acceptance and/or approval that stakeholders and communities extend to the Fund.

Each lens provides insight into the financial impact of certain ESG risks on member outcomes.

Rest is committed to continuously pursue better RI practices, and our approach is best summarised into six pillars:

- Governance
- ESG integration
- Active ownership
- Screening, thematic and impact investing
- Collective responsibility and advocacy
- Disclosure and transparency.

## 5 Climate change

The Board has approved a separate policy in relation to climate change.

## 6 Governance

This Policy is approved by the Board and the Board has delegated investment-related functions, including roles with respect to RI, to the Board Investment Committee (BIC).

The Chief Investment Officer (CIO) is accountable to the BIC for RI matters, with the Head of Responsible Investment and Sustainability tasked with RI strategy development and implementation in partnership with, and with support from, internal investment teams, external investment managers, investment advisors and other relevant parties.

The Board and Rest Management are committed to ensuring appropriate resourcing and training is provided for Board members and relevant employees to enable effective implementation of this Policy.

As of 1 July 2021, relevant team member KPIs include RI matters, with variable remuneration measured against RI outcomes.

ESG risk is included within the controls of the Rest Investment Risk Management Framework, in accordance with the Control Assessment Standard. These controls are subject to periodic testing by line-one, line-two and line-three reviews.

The Rest Conflicts Management Policy outlines the formal process for managing potential conflicts of interest across the Fund.

The role of the Rest responsible investment and sustainability team includes being a resource for portfolio managers in the assessment of ESG risks to ensure that frameworks for the consideration of ESG are in place through the investment process; and to provide expert assessment, as appropriate, on the consideration of ESG risks.

## 7 ESG integration

Rest invests globally, across a range of asset classes, and through internal and external investment managers in the execution of the Fund's investment strategy.

ESG factors are considered across a number of aspects, including whole of fund, asset class and/or individual asset, and during the investment and ownership process.

How ESG is integrated is dependent on whether the assets are in public or private markets, managed internally by Rest Investments or through external managers. Investment approvals are contingent upon the identification, assessment, and management of material ESG risks, and as related to the sector and geography.

### 7.1 Investment Strategy and asset allocation

The Board considers material ESG risks and opportunities in the annual review of investment strategy and strategic asset allocation, or at other times throughout the year, as required (for example in stress-testing scenarios).

ESG factors are considered and integrated into portfolio construction, and investment manager selection, appointment and monitoring.

The extent to which ESG factors can be integrated may differ across investment strategies. Nevertheless, the Fund aims to continuously pursue better practice across asset classes, and as ESG is applicable to the asset class.

## 7.2 Investment manager selection and appointment

Rest considers that Investment managers that identify and effectively manage material ESG risks and opportunities enhance long-term financial performance.

Rest expects investment managers to have a good working knowledge of ESG issues and how they can best be integrated into investment decisions.

ESG due diligence, with ESG assessed in the context of the asset class, is conducted during investment manager selection. The investment manager is assessed and given an overall rating of 'Developing', 'Improving' or 'Leading', based on their:

- Firmwide ESG commitment, e.g., governance, policies, collaboration, reporting, active ownership; and
- ESG integration into the investment strategy, e.g., investment research and process, climate change, modern slavery.

Rest aims to appoint investment managers that demonstrate 'improving' or above, ESG practices.

Any newly appointed investment managers must monitor ESG risks and leverage ESG opportunities that relate to the Fund's investments.

Rest encourages investment managers to align their remuneration structures and cultures with the long-term perspectives needed to generate long-term returns.

## 7.3 Investment manager monitoring

Once an investment manager is appointed or a direct or co-investment asset assigned, Rest undertakes ongoing monitoring, with ESG progress a mandatory input into the annual asset class reviews.

Any existing managers who are rated 'Developing' triggers enhanced engagement.

## 7.4 Investment in direct assets and co-Investments

Rest undertakes ESG due diligence on potential direct asset investments and co-investments and conducts ongoing ESG monitoring of these assets.

Co-investments are covered through section 6.2 (Investment manager selection and appointment) above, with the ESG due diligence and monitoring extending to the specified asset/s, as relevant.

## 7.5 Investment consultant

Rest engages investment consultants to provide advisory services.

Rest's investment consultants should consider RI in their approach to assessing, recommending, and monitoring strategic asset allocation, mandate selection, benchmarks, and external investment managers for the Fund. This includes that the investment consultant assess ESG-related policies, processes and resourcing, ESG integration and stewardship activities of external managers.

Investment consultants to Rest should report on ESG-related activities on an annual basis.

# 8 Active ownership

Rest recognises its responsibilities of being a universal owner, which includes communicating members' long-term investment interests to companies and investment managers in which the fund invests; and using these ownership rights and positions to influence the activities or behaviour of investee companies to improve investment performance.

Rest aims to assess material ESG issues across the Fund, where applicable, and identify priority themes to focus active ownership activities on, and as based on materiality, severity and perceived risk.

## 8.1 Engagement

Rest recognises that effective engagement can bring higher financial returns and ensures that the companies and/or investment managers that the Fund invests with understand Rest's approach to long-term value for members.

Rest engages investee companies to improve their ESG practices and policies. Engagement may be undertaken directly, in collaboration with other investors and through external services providers. This helps to address company-related risks and opportunities as they arise, including those related to shareholder proposals before or after votes are cast.

Rest expects its investment managers to engage investee companies on ESG-related matters. The Fund routinely meets with its investment managers at which updates on company engagement is provided to Rest's investment team.

Engagement may be pursued by holding a seat on a Board, i.e., for unlisted asset direct investments and co-investments.

### 8.2 Share voting

Consistent with our members' best financial interests, the Fund's voting activities aim to protect and enhance sustainable, long-term value creation of our members' equity holdings. Rest takes a holistic approach to voting at investee company meetings, is guided by its key voting principles, and considers a range of inputs in casting its votes.

The Fund has ultimate responsibility for its voting decisions and reserves the right to override recommendations from its proxy advisors and investment managers.

#### 8.2.1 Voting on Australian and Overseas Shares

Rest takes an active approach to voting its shares, sourcing research and advice from a range of sources, including proxy voting advisors. This advice may be based on ACSI's Governance Guidelines, of which Rest is involved in the periodic review. Voting recommendations from our proxy advisors are considered on a case-by-case basis.

The Fund's investment managers are expected to actively consider company Annual General Meeting (AGM) resolutions and are encouraged to advise Rest where they have strong views.

Voting decisions are made in line with the Fund's voting principles and active ownership priorities. Inputs to vote decision-making can include the Fund's engagement with the company, proxy voting advice, company disclosures, views of investment managers (internal and external) and other stakeholders where relevant.

Voting rights are not to be exercised with regard to Australian retail stocks, unless the Board has expressly considered and resolved to direct the investment team to do so.

Rest will generally vote by proxy; however, there may be occasions where a representative of the Fund attends a company's AGM in-person.

#### 8.2.2 Securities Lending

Rest's securities lending program is conducted by the Fund's securities lending provider who recalls loaned holdings in a company with upcoming meetings for voting on securities. This enables Rest to exercise voting rights in respect of its invested capital.

There may be instances where voting rights may not be executed, for example in countries where there is share blocking or where a Power of Attorney may not be in place and where the cost of executing one outweighs the benefits.

#### 8.2.3 Voting disclosure

The Fund adheres to regulatory requirements and obligations to publicly disclose voting positions for each investee company to Rest members and other stakeholders.

#### 8.2.4 Conflicts of Interest

Members' best financial interests are the determinative factor when Rest exercises its voting rights.

The Trustee will have regard to this Policy and its Conflicts Management Policy in seeking to manage any actual or perceived conflict of interest in exercising its votes, always acting in the best financial interests of members.

#### 8.2.5 Escalation

Where Rest considers a company has failed to demonstrate sufficient change, escalation activities may be considered. These could include voting against directors, voting against the remuneration report, direct engagement with other investors (asset owners and asset managers), supporting (and potentially filing) a shareholder resolution, making a public statement, nomination of directors to the board, and as a last resort exiting the stock. Escalation decisions will be made in line with members' best financial interests, taking into account the nature and materiality of the issue.

In addition to the above:

- The Fund's Climate Change Policy sets out requirements for Rest to actively consider all climate change-related shareholder resolutions of investee companies.
- Rest may co-file resolutions for its Australian and overseas shares holdings to progress engagement with investee companies on significant long-term ESG issues. Co-filing resolutions will only be considered following extensive engagement with the company, in addition to dialogue with engagement service providers, other institutional investors and any relevant stakeholders. Approval to participate in co-filing a resolution must be sought from the Rest CEO.

### 8.2.6 Class Actions

Class actions present a way for shareholders, as a collective group, to claim for losses against a company when a financial loss has occurred due to a breach of law or regulations.

Rest engages a third party to identify potential listed equity class action opportunities and to access settlements awarded from passive listed equity class actions undertaken on behalf of investors.

## 9 Screening, thematic and impact investing

### 9.1 Exclusions and negative screening

Divestment or negative exclusions are significant decisions which would generally only be taken after considerable engagement. Other active ownership approaches are normally undertaken as they drive responsible corporate practices.

The Rest Board may make a decision to divest or exclude a company and/or product, taking into account the following:

- Whether there is a significant negative impact on long-term returns or the fund's relationship with members and/or societal expectations; or
- Contraventions of international treaties; or
- Where comprehensive company engagement (whether direct, service provider or collaborative) has been unsuccessful, or where company engagement is deemed ineffective.

Rest has currently excluded the following:

- Rest will not invest in companies involved in the manufacture of tobacco<sup>5</sup>; and Rest will not invest in companies directly involved in the manufacture of controversial weapons, specifically, cluster bombs, landmines, depleted uranium weapons, chemical and biological weapons or their key parts<sup>6</sup>. For indirect holdings where the Trustee does not maintain the same degree of control, such as derivatives, pooled unit trusts and structures like collateralised debt securities or exchange traded funds, these exclusions may not apply to these investments. We expect our investment managers to adhere to our exclusions and we will monitor their actions.
- As of 1 January 2022, Rest will not invest in listed equity companies that derive 10 percent or more of total annual revenues from thermal coal mining, unless the company has a credible net zero by 2050 objective or has signed up to Science-Based Targets. Rest advocates for a 'Just Transition' for Australian communities and those individuals affected by the shift to a lower carbon economy.

Rest also offers the Sustainable Growth product for members who wish to choose an investment option with additional screening.

### 9.2 Thematic investments

Thematic investing in the context of this Policy occurs when Rest specifically targets an investment for a sustainability theme.

This may include sustainable agriculture, green or low carbon assets, or investments which are aligned with the Paris Agreement or United Nations Sustainable Development Goals (SDGs).

<sup>5</sup> As defined by MSCI ESG screen: Tobacco Producers.

<sup>6</sup> As defined by MSCI ESG screens: Bio/chem Components, Bio/chem Systems, Ownership by a Bio/Chem Weapons Company, Ownership of a Bio/Chem Weapons Company, Cluster Munitions - Delivery Platforms, Cluster Munitions - Dual Use Components, Cluster Munitions - Intended Use Components, Ownership by a Cluster Munitions Company, Ownership of a Cluster Munitions Company, Cluster Munitions - Whole Weapons Systems Manufacturer, Depleted Uranium Manufacturer, Ownership by a Depleted Uranium Weapons Company, Ownership of a Depleted Uranium Weapons Company, Anti-Personnel Landmines Whole Weapons Systems Manufacturer, Anti-Vehicle Landmine Whole Weapons Systems Manufacturer, Landmines - Dual Use Components, Landmines - Intended Use Components, Ownership by a Landmine Company, and Ownership of a Landmine Company.

### 9.3 Impact investments

Where available, impact investments are investments made, in members' best financial interests, to provide a financial return and a social and/or environmental return. Investing with intention to generate positive, measurable social and/or environmental impact provides a second aim to the investment process, and is in addition to assessing the ESG-related investment risks.

Rest invests in the best financial interests of members, and is aware that certain investments also can positively impact the environment and society; with a focus on, although not restricted to, the five SDGs which have been identified under the Rest Sustainability Strategy:

- Gender equality (goal 5)
- Affordable and clean energy (goal 7)
- Decent work and economic growth (goal 8)
- Reduced inequalities (goal 10)
- Climate action (goal 13).

## 10 Collective responsibility and advocacy

### 10.1 Collective responsibility

Rest recognises that when investors collaborate the entire group benefits from a successful dialogue with a company, and/or other relevant investees.

Collaborative engagements are when groups of investors work together, with or without the involvement of a formal investor network or other membership organisation. This is an efficient and effective method to protect or enhance Rest members' retirement savings as it enhances influence through the pooling of resources and sharing of information.

Further, collaboration with companies, or investment managers, or within the industry is essential to addressing systemic ESG issues, such as climate change, and in achieving sustainability outcomes.

Rest is an active member of the following collaborative organisations:

- Australian Council for Superannuation Investors (ACSI)
- Australian Sustainable Finance Institute (ASFI)
- GRESB
- Investor Group on Climate Change (IGCC)
- Principles for Responsible Investment (PRI)
- Responsible Investment Association Australasia (RIAA).

### 10.2 Policy advocacy

Rest's preference for policy advocacy is to leverage the voice of the advocacy organisations of which we are signatories or members. Rest therefore contributes to the development of submissions on policy, regulation and standard setting to government and regulators through its involvement with the ACSI, ASFI, IGCC, PRI and RIAA.

Rest may though opt to make independent submissions and engage with policymakers and industry bodies directly to advocate for positive change on material ESG issues.

Rest may also opt to participate in 'sign on' letters on ESG policy topics; respond to policy consultations on ESG policy topics; provide technical input on ESG policy change; proactively engage financial regulators on material ESG topics; and co-sign investor statements or joint letters.

## 11 Disclosure and transparency

The Rest BIC is provided with relevant RI reporting on a quarterly basis, with relevant information provided to the Board.

The RI team source data for this reporting from a range of sources, including the custodian, external investment managers and ESG research and voting providers to monitor and report on the ESG performance of the portfolio.

Information made available through RI disclosures to Rest members and other stakeholders allows Rest members to make informed investment decisions. This includes Rest publishing Option level portfolio holdings every six months.



RI disclosures aim to provide transparency and confidence to Rest members in the investment actions undertaken on their behalf. This includes information associated with the Fund's ESG regulatory compliance obligations, proxy voting, exclusions and climate change. Rest may disclose its RI approach via its website, the annual report or within a dedicated Sustainability report.

As a signatory to the PRI, Rest responds annually to the reporting framework.

## 12 Member preferences

Whilst Rest is focused on financial returns for members, we also believe that it is important to be informed of member expectations as related to ESG issues. Rest surveys members from time to time to ensure it remains informed about what is important to our member base.

For members seeking portfolios based on ESG-related preferences, the fund provides a choice investment option, Sustainable Growth.

## 13 Investing in Australia's future

As a Universal Owner, Rest is committed to providing long-term equity and debt to help fund Australia's infrastructure developments and create long-term sustainable value for Rest members.

These assets, which include social infrastructure, provide investment returns and are essential to Australia's economy and support the quality of life and wellbeing of Australian communities.

Assets may include airports, industrial buildings, energy grids, motorways, office buildings, ports, renewable energy, schools, shopping centres, student accommodation, and transport.

## 14 ESG explained

ESG factors which may be considered in investment decisions and ongoing monitoring can include:

- Environmental – biodiversity, climate change, deforestation, energy efficiency, greenhouse gas emissions, hazardous materials, pollution to air, land and water, resource depletion, waste management, water scarcity.
- Social – customer satisfaction, data protection and privacy, diversity and equal opportunities, employee engagement, health, safety and wellbeing, human rights and modern slavery, First Nations and indigenous rights, labour standards, animal welfare, product mis-selling, product safety and liability, supply chain management.
- Governance – board diversity and structure, bribery and corruption, corporate governance, executive remuneration, political lobbying and donations, risk management, taxation practices, stakeholder dialogue.

When assessing ESG factors across the portfolio, the Trustee is guided by the 10 Principles of the United Nations Global Compact.

Rest actively sources ESG research from a range of specialist research providers, consultants, investment brokers and non-government organisations.

## 15 Regulatory requirements and industry codes

The Trustee is required to ensure the Fund is operating in accordance with set of legal requirements and a number of RI-related voluntary codes which the Fund has committed to. In forming this Policy, the Trustee has considered the following:

Regulatory requirements:

- Superannuation Industry (Supervision) Act 1993 and provisions of the Corporations Act 2001
- APRA Prudential Practice Guide, SPG 530 Investment Governance
- APRA Prudential Practice Guide, CPG 229 Climate Change Financial Risks
- Modern Slavery Act 2018

Industry frameworks and codes:

- PRI
- Australian Asset Owner Stewardship Code
- Australian Council for Superannuation Investors (ACSI) Governance Guidelines.



## 16 Review of the Policy

The Policy will be reviewed at least every two years in the context of internal and external factors and in accordance with Rest's compliance requirements. These factors may include but are not limited to:

- legal or regulatory requirements;
- members' or community expectations;
- the asset classes that Rest invests in; and
- changes to the assessment and monitoring of ESG-related risks and opportunities.