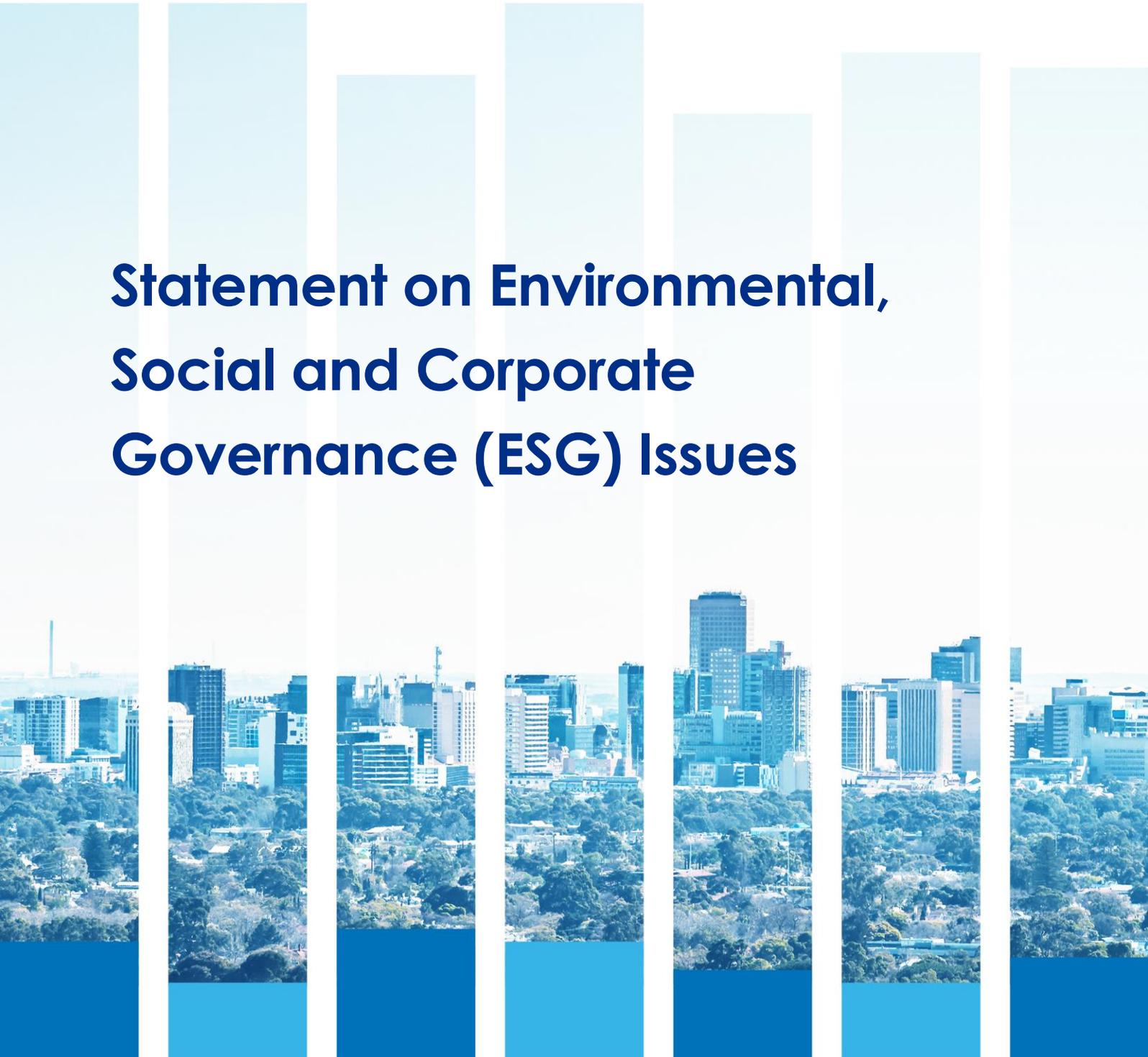


# Statement on Environmental, Social and Corporate Governance (ESG) Issues



Funds SA has a strong fiduciary responsibility to develop and implement an investment program that has the highest likelihood of meeting the retirement objectives of members of the State's different public sector superannuation schemes and the investment objectives of the monies managed on behalf of approved public authorities. This responsibility is codified within the *Superannuation Funds Management Corporation of South Australia Act 1995* (Funds SA Act), which states:

*The object of the Corporation in performing its functions is to achieve the highest return possible on investment of the funds while having proper regard for—*

- (a) the need to maintain the risks relating to investment at an acceptable level; and*
- (b) the need for liquidity in the funds; and*
- (c) such other matters as are prescribed by regulation.*

Towards this end, Funds SA works with the investment managers appointed to each portfolio and professional advisers to develop and implement investment strategies designed to maximise the likelihood of achieving the objective set down in the Act.

Funds SA's investment products offered by the State's public sector superannuation funds as pre-retirement, income stream and flexible rollover options include: 'cash', 'capital defensive', 'conservative', 'moderate', 'balanced', 'growth', 'high growth' and 'socially responsible'. These strategies are also available to approved public authorities.

Across all portfolios, managers are required to follow thorough and well developed investment processes which aim to identify companies that will generate the best financial performance resulting in the best investment returns for stakeholders.

In evaluating investment opportunities, managers will consider the many risks inherent in each investment. In most cases this includes environmental, social and governance factors, where relevant, as managers acknowledge that such issues have the potential to impact on performance.

For example, in relation to the 'Environmental' factor, a common risk is the impact of carbon pricing on individual investments, while in relation to the 'Governance' factor, managers consider that a successful company requires good corporate governance practices, remuneration policies and a strong management team.

For managers under Funds SA's direct control, mandates exclude investments in companies classified as being in the tobacco industry according to the Global Industry Classification Standard (GICS) or similar.

In the socially responsible option, underlying fund managers actively incorporate the consideration of environmental, social and governance factors in their investment decisions and also avoid companies operating in areas of high negative social impact.<sup>1</sup> The option invests in line with the socially responsible investment criteria established by the product provider.

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<sup>1</sup> Note the use of socially responsible investment criteria in the construction of an investment portfolio may not necessarily result in higher investment returns.

Funds SA's managers are active and diligent representatives of our stakeholders' interests as shareholders in companies in the portfolio. Many of Funds SA's investment managers adopt a positive engagement approach, working directly with the management of companies in which Funds SA invests in order to achieve any change necessary to improve the financial performance and risk management of the company.

All managers are active in exercising their right to vote at general meetings of companies in which Funds SA is invested. The managers' guiding principle is to vote in the best financial interest of stakeholders on the numerous issues raised at general meetings of companies.

Many of Funds SA's managers are members of specific groups that promote the inclusion of ESG factors in investment decisions or provide information to assist in monitoring such factors. Indeed, more than half of Funds SA's equity and debt managers and all of the unlisted property managers are signatories to one or more such groups. Examples of such groups include: the UN Principles for Responsible Investment, the Investor Group on Climate Change (the Australian and New Zealand group encourages factoring the risks and opportunities associated with climate change into investment decisions), the Carbon Disclosure Project (CDP) (the CDP collects climate change data globally) and the International Corporate Governance Network (promoting good corporate governance).