FUNDS SA

Board Policy

Investment

Responsible Investment

Version 2

Board approved (8 FEBRUARY 2023)

Next review due: FEB 2025

Government of South Australia

Version history

Version no.	Comment	Updated by	Pages	Date approved
1	Board approved			10/12/2020
2	Board approved	Head of Responsible Investment		08/02/2023

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1. Introduction

Funds SA is a South Australian government owned corporation established under the *Superannuation Funds Management Corporation of South Australia Act 1995* (the Act). The Act outlines Funds SA's functions, powers and objectives. Funds SA's legislated function is to invest and manage public sector superannuation funds, nominated funds of approved authorities and other funds established under South Australian legislation, pursuant to strategies formulated by Funds SA.

Under the Act, Funds SA's objective is to achieve the highest return possible on investment of the above funds while having regard to the need to maintain the risks relating to investment at an acceptable level and the need for liquidity.

This Policy sets out Funds SA's approach to responsible investment. Funds SA defines responsible investment as a financial outcome focused approach that complements traditional investment analysis through:

- ESG[1] Integration: explicitly considering ESG issues and opportunities in investment analysis and decision making through the activities of our external managers and across our total portfolio.
- Stewardship: the responsible oversight and management of investments through exercising ownership rights (proxy voting, engagements and class actions) and encouraging long-term value creation.

2. Scope

This policy applies to all funds managed by Funds SA.

3. Related policies and procedures

- Investment Policy Statement
- Proxy Voting: Approach and Guidelines and Proxy Voting Position Statement
- Climate Risk Response Plan and Climate Change Position Statement.

4. Approach

There are four core components to Funds SA's approach to responsible investment as follows:

- ESG Integration
- Stewardship
- Collaboration
- Transparency

Each of these are discussed below.

[1] ESG means Environmental, Social and Governance

4.1 ESG Integration

ESG Integration is the explicit inclusion of ESG factors in investment analysis and decisions to determine inherent risks within the portfolio.

As part of investment due diligence process, Funds SA requires investment managers to provide information on their ESG processes to establish how, or the extent to which, each investment manager:

- incorporates the assessment of ESG risks into due diligence activities,
- integrates ESG considerations into investment decision making, and
- monitors ESG risks within the portfolio.

This information enables Funds SA to better understand its exposure to ESG risks through the processes employed by its investment managers. The assessment also examines each manager's approach to climate risk, industry involvements and the evolution of its ESG framework. Where possible, Funds SA reports the results of its assessments back to the investment managers to support improvements in responsible investment practices across the investment industry.

Where Funds SA is making co-investments and/or direct investment decisions in companies or assets, further investment due diligence is applied. This typically involves a three-level approach to ESG integration where we are undertaking our own due diligence activities:

1. ESG due diligence gathers information across key areas that could impact asset value including any regulatory risk and identifying ESG opportunities.
2. Due diligence information is then assessed for potential impact on asset valuation and asset running costs.
3. Where applicable, risks identified by Funds SA can be built into asset management strategies – such as improvements to energy ratings, decrease in greenhouse gas emissions etc.

Where required, Funds SA utilises third party tools to supplement internal processes to identify material ESG risks.

Climate Change: Funds SA recognises that climate change presents a systemic risk impacting potential investment returns over the coming decades. Across the globe, economies are decarbonising and this brings significant risk and opportunity for investors. Funds SA's response to this important focus area is detailed in its Climate Risk Response Plan that is an important component within its approach to responsible investment.

Investment Exclusions: the investment exclusions in place at Funds SA are summarised below. Scope restrictions apply based on the structure of the investment, such as pooled funds where Funds SA is invested with other parties or through a discrete mandate where Funds SA has appointed an external investment manager to manage its assets. The exclusions do not apply to the use of derivatives.

Exclusion	Full Wording	Scope Restrictions	Date of Implementation
Tobacco	For discrete mandates, investments in securities issued by companies classified as being in the tobacco industry according to the Global Industry Classification Standard (GICS) or similar are not permitted.	Applies to discrete mandates only.	From 2012
Russia	Exclusion of Russian Assets consistent with direction received under section 21(3) of the Act.	Applies to discrete mandates. From March 2022, new pooled fund investments must not add to Funds SA's Russia exposure.	From 2022 Note: Funds SA divested of any Russian Assets held pre-March 2022 to the greatest extent possible, having regard to market conditions, sanctions laws and its responsibilities to the entities for whom it invests and manages.
Thermal Coal	Phase out thermal coal exposure except where a credible transition plan exists. For discrete mandates, investments in securities issued by companies classified as being in the Coal and Consumable Fuels sub-industry according to the Global Industry Classification Standard (GICS) or similar are not permitted.	Applies to both discrete mandates and pooled investments.	From 2022 (phased approach)
Socially Responsible investment option specific investment exclusions	As defined by the SRI Criteria[2] established by Funds SA.	As defined by the SRI Criteria established by Funds SA.	2021 (SRI investment exclusions previously defined by appointed investment manager 2009-2021)

4.2 Investment Stewardship

Investment Stewardship is the responsible oversight and management of investments. It is an important component of Funds SA's approach to responsible investment and focuses on Funds SA's responsibility to take actions that protect and create long-term value for its clients. Funds SA does this through various means including proxy voting, engagements and class actions.

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[2] The 'SRI Criteria' is a combination of:
- investment exclusions,
- targeting SRI investments and/or
- inclusion of a best-in-class ESG approach.

The investment approach for the Socially Responsible investment option and the way that the SRI Criteria is applied to each asset class in the SRI option is described at www.funds.sa.gov.au

Proxy Voting & Engagement: Funds SA directly exercises the voting rights of certain Australian securities. In determining which securities Funds SA will directly exercise its voting rights over, it employs a materiality approach that focuses on both financial materiality (i.e., the size of its holding) and degrees of influence (i.e., the percentage ownership of shares of a company owned) in the companies in which it invests. As required by the Act, Funds SA's guiding principle is to vote in the best financial interest of its clients.

The power to exercise proxies on Funds SA's behalf with respect to the remaining securities, both in Australia and internationally, is delegated to the relevant investment manager. Funds SA expects its investment managers to exercise their right to vote on all matters that come before them as part of their proxy voting programs in relation to the companies in which Funds SA is invested.

Funds SA may have opportunities to drive stewardship activities both independently and in collaboration with investment managers. Whilst Funds SA does not usually engage directly with companies, it may undertake collaborative engagements where appropriate.

Class Actions: Funds SA has a class action program. Participation in class actions is assessed on a case-by-case basis.

4.3 Collaboration

Collaboration ensures that Funds SA maintains awareness of responsible investment practices and builds capability through learning and development activities, networking and utilisation of industry tools/guidance. Funds SA is a signatory to the UN-supported Principles for Responsible Investment (PRI). It also regularly meets with its Australia/New Zealand state and sovereign wealth fund peers.

4.4 Transparency

Transparency serves to promote the responsible investment activities of the Funds SA team and to meet the expectations of its clients and other stakeholders.

To provide clarity on its approach to individual responsible investment issues or practices, Funds SA may develop position statements describing the issue and how it plans to respond. The responsible investment issues that require a position statement are linked to Funds SA's other responsible investment activities.

Current Position Statements include: (i) Proxy Voting and (ii) Climate Change.

Funds SA reports its responsible investment activities and progress in implementing this policy to its clients and to other stakeholders through various means including its Annual Review.

Funds SA encourages feedback on its responsible investment activities from its stakeholders.

Greenwashing: Funds SA is aware that greenwashing[3] can erode investor confidence and poses a threat to a fair and efficient financial system. It routinely monitors the ESG practices of its investment managers as well as maintaining Board level oversight of this Responsible Investment Policy and the implementation of its responsible investment program. Funds SA also actively reviews and monitors any disclosure made in relation to its investment strategy and approach to ensure that any statements or conduct could not be considered misleading or deceptive.

5. References

The following legislation and standards have been reviewed and, where appropriate, incorporated into the drafting of this policy:

- United Nations-supported Principles for Responsible Investment;
- Corporations Act 2001 (Cth); and
- ASIC Information Sheet 271: How to avoid greenwashing when offering or promoting sustainability-related products.

6. Review

The Funds SA Board will review changes to this policy at least every two years.

Next review due: February 2025

[3] 'Greenwashing' is the practice of misrepresenting the extent to which a financial product or investment strategy is environmentally friendly, sustainable, or ethical.