



# Prime Super

## Investments - ESG Policy

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Prepared By	Jane Kang
Authorised By	Board Processes

## Revision History

<b>Issue Date</b>	<b>Version</b>	<b>Prepared/Reviewed by</b>	<b>Summary of Changes</b>
Feb 2016	1	Jane Kang	
Jun 2017	2	Jane Kang	Annual review

## **Prime Super Pty Ltd Environment, Social & Governance Policy**

### **Objective**

Prime Super Pty Ltd as trustee for Prime Super (the Trustee) has a fiduciary duty to act in the best interests of members and believes that considering Environmental, Social and Governance (ESG) factors as part of investment decision-making on behalf of members is consistent with this responsibility.

This Policy is designed to support the Trustee's overview of the Fund's approach to managing ESG factors in its investments and supplements the Climate Change Policy.

### **ESG and the Fund**

Considering ESG factors in the investment process helps in the assessment of an investment's risks and opportunities, particularly over the longer-term.

Potential ESG factors include but not limited to the following:

- **Environmental:** climate change, impact on local environment, pollution and waste, policy and regulatory change, waste management.  
A strong focus on an environmental impact by an entity should lead to a more sustainable enterprise that delivers to shareholders of that entity a better long term investment result.
- **Social:** health and safety, human rights, labour standards, workforce diversity, equal opportunities  
The social impact of certain behaviours can have a negative or positive impact on the revenue and cost basis of a business. Any unpopular decision (s) can lead to a down turn in the prospects of a business and therefore reduced dividend flows and capital losses:
- **Governance:** board composition, executive remuneration, risk management, transparency, market conduct  
Strong governance ensures a business is focused on all risks and addresses those risks appropriately, again, leading to a better business outcome and results for that business and its owners.

### **ESG Management Approach**

The Trustee is assisted in the management of ESG factors by its Investment Consultant, Investment Managers and Custodian.

### **Policy outline**

Prime Super has appropriate processes in place to monitor and identify the ESG activities of its Investment Managers and those direct investments managed by the Investment Consultant.

Prime Super expects to continuously improve how it incorporates environmental, social and governance (ESG) risks within risk management frameworks, policies and processes.

Prime Super:

- seeks to promote the adoption of a proactive approach to ESG matter by portfolio companies, encouraging the definition and implementation of adequate policies and supervisory systems;
- seeks to promote the respect of, and compliance with the highest standards of honesty, integrity and business conduct by its employees, portfolio companies and investment partners, fostering the engagement towards a more sustainable business and financial environment;and
- through its Custodian, has products and processes in place to monitor Prime Super's investments and any exclusions arising from this policy, from directly held assets.

### ***Third Party Investment Managers – International and Australian Equities and Fixed Interest***

Prime Super recognises that ESG factors can affect the risk profiles of listed securities, and therefore the long-term characteristics of investments. For this reason, the ESG capabilities of external investment managers are considered during the assessment and evaluation of those managers prior to selection and those capabilities are monitored periodically.

Prime Super's Investment Consultant is required to undertake following activities:

- during the due diligence process for investment manager selection, the Investment Consultant may exclude investment managers that do not have an appropriate process in place to identify, assess and manage ESG matters;
- communicate to investment managers during its due diligence process the importance of the ESG activities to the Trustee;
- monitor the appointed investment managers to assess their management of ESG factors on an ongoing basis; and
- report on ESG issues such as risks and opportunities that have the potential to affect the Trustee's investments, if and when required by the Trustee.

### ***Direct Investments – Infrastructure***

Prime Super, with the assistance of the Investment Consultant, manages the direct investments and this includes acquisition and ongoing monitoring.

The nature of infrastructure investing means that investment risks are assessed over a long term. As such, environmental, social and governance factors are a critical part of their risk assessment as they can have an important bearing on investment returns.

The Investment Consultant is expected to aim to be a leader in responsible investment best practice among infrastructure fund managers and be committed to:

- complying with applicable international, national, state, and local labour laws in the countries in which it invests;
- respecting the human rights of those who may be affected by our investment activities and seeks, prior to making an investment to confirm that investments made do not flow to companies that utilise child or forced labour or maintain discriminatory policies or practices;
- supporting the payment of competitive wages and benefits;
- providing a safe and healthy workspace in conformance with national and local law;
- respecting the rights of employees to decide whether or not to join a union and engage in collective bargaining; and
- prohibiting bribery and other improper payments to public officials consistent with the Australian Criminal Code Amendment (Bribery of Foreign Public Officials) Act 1999 (Cth), the UK Bribery Act 2010, the US Foreign Corrupt Practices Act, and the OECD Anti-Bribery Convention.

## **Exclusion Processes**

The integration of ESG in the investment process does not necessarily mean the exclusion of particular companies purely on ethical grounds. Generally, the Trustee's ESG investment approach has not been to exclude particular companies or sectors but rather to use engagement and proxy voting to influence the behaviour of companies in which Prime Super invests.

However, there are circumstances where a sector or stock can be excluded if Prime Super considers that an investment is not appropriate for the Fund to the extent that it may have

- a negative impact on the reputation of the Fund, or
- a negative impact on the returns of the Fund.

Prime Super currently excludes certain companies from its investment portfolio on the basis that it is inappropriate for the Fund. These are companies that are involved in the manufacture of tobacco products or derive a majority of their revenue and income from tobacco.

Once specific companies are excluded from its investment portfolio:

- the custodian, under its compliance monitoring service will ensure these securities are excluded from the portfolios of mandated managers;
- to the extent possible, Prime Super will ensure that these excluded securities are not included in the approved investment universe of securities of pooled funds that are recommended to the Fund (and noting that the investment managers may purchase these securities for pooled funds independently of Prime Super).

## ***Specific Exclusions***

The following specific investment opportunities are excluded from the investment strategy of Prime Super.

### *Tobacco*

A direct investment in a manufacturer or distributor of tobacco and tobacco related products is excluded from the investment strategy of Prime Super.

The exclusion is based on the following considerations:

- tobacco is an addictive product with proven adverse health impacts;
- the risk of a class action against tobacco companies is heightened in the future on the basis of allegations of tobacco manufacturers knowingly adding addictive elements to their products to ensure future sales;
- the cost of health treatments of those adversely affected by consumption of the product is significant, and could potentially be pushed back onto the tobacco manufacturer (similar to the outcome of the liability on James Hardie for the manufacture and distribution of asbestos related products). Such a finding would have a significant negative effect on the future earnings potential of the tobacco manufacturer;
- tobacco manufacturers and distributors are actively marketing their products to developing countries where restrictions on the use and consumption of tobacco is not as strict in the western world, leading to heightened risk of future class action, and a negative earnings outlook.

This exclusion generally applies to those companies where a majority of the business's income or business assets are engaged in the production and/or distribution of tobacco and tobacco related products (as defined as a security that is a constituent of the GICS sub-industry 'tobacco', 30203010). By way of example, it does not apply to those businesses where tobacco is an ancillary element of the overall business, such as retailers that sell cigarettes, which are a legal product in Australia.

**Review of Policy:**

This Policy will be reviewed and approved by the Trustee annually or when required. The Trustee may also review this Policy at any time for any reason, but in particular, where it becomes aware that:

- this Policy is out of date;
- this Policy is no longer relevant to the circumstances of the Trustee;
- there are changes to the Trustee's investment strategy or the asset allocation process which impact this Policy