

Responsible Investment Policy



Introduction

Funds SA is a South Australian government owned corporation established under the *Superannuation Funds Management Corporation of South Australian Act 1995* (the Act), that outlines the functions, powers and objectives of the Corporation. The Corporation was founded as the steward and primary investment facilitator for public sector superannuation funds and approved authorities.

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

- ESG¹ 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.

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

ESG Integration

ESG Integration is the explicit inclusion of ESG factors in investment analysis and decisions to determine inherent risks within the portfolio. In evaluating investment opportunities, Funds SA's appointed investment managers consider the many risks in each investment.

As part of investment due diligence process, Funds SA requires investment managers to provide information on their ESG processes so as to establish how 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 investment risk, industry involvements and evolution of its ESG framework. Where possible, Funds SA reports back to its investment managers so as 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 assessed for potential impact on asset valuation and capex/opex budgets.
3. Where applicable, identified risks 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.

A note on Investment Exclusions: 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.

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.

Proxy Voting & Engagement: Funds SA is committed to exercising voting rights attached to all relevant securities in Australia and internationally. Funds SA has responsibility for directly exercising the voting rights for a sub-set of Australian securities, whilst all other votes are exercised by external investment managers. In determining the securities that Funds SA will directly exercise, it employs a materiality approach that focuses on both financial materiality and degrees of influence in the companies in which it invests. 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 be active in exercising their right to vote on all matters that come before them 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.

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 is also regularly meets with its Australia/New Zealand state and sovereign wealth fund peers.

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.

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.