Responsible Investment Position Statement July 2020

This position statement describes the role responsible investment plays in the assessment, selection and monitoring process of externally appointed managers and outlines the framework for identifying and managing environmental, social and governance (ESG) impacts, risks and opportunities across the portfolios that the Pensions & Investments business unit within IOOF Holdings Limited (IOOF) operates.

The Investment Team manages assets offered through various superannuation and investment products including ANZ Smart Choice, OptiMix, OneAnswer and OnePath investment funds.

OptiMix and OnePath Funds primarily use an active investment approach to gain exposure to each asset class, while the ANZ Smart Choice investment options are implemented by replicating the underlying indices (referred to as passive management)

Overview and Background

Pensions & Investments provides superannuation and investment products to customers across a range of distribution channels. Our key objective is to build and preserve our customers' wealth over the long term. Responsible investment is an important consideration in achieving this objective and is employed by assessing the ESG capabilities of investment managers.

The Investment Team manages assets associated with various superannuation and investment products that are offered by the Product Issuers referred to in Appendix A. The OptiMix and OnePath funds primarily use an active investment approach to achieving exposure to each asset class, while the asset class exposures for the ANZ Smart Choice portfolios that are within the scope of this document are implemented by replicating the underlying indices (passive management).

The responsible investment framework for the in-scope investment schemes is implemented by ensuring ESG factors are considered at each stage of the manager evaluation process. The Portfolio Management team has responsibility for ensuring underlying managers have the capability to identify risks and opportunities associated with ESG issues in investment portfolios.

A range of processes have been introduced to existing investment manager assessment, selection and monitoring practices, to include an evaluation of each firm's ESG methodologies and capabilities. In-house analysis is supplemented by independent external research, such as Mercer and MSCI Inc. Mercer ESG Ratings analyse and rate managers' ESG processes, while MSCI ESG ratings are used to identify ESG risks and opportunities that may exist at a portfolio level. These resources are used to engage with incumbent and prospective managers and to evaluate the extent of integration of ESG criteria in their respective investment processes.

While neither IOOF or any other of its subsidiaries are signatories to the Principles for Responsible Investment (PRI), we endorse and support their objectives. The processes outlined in this document have been developed with reference to current best practice as described by the PRI[1].

This framework applies to the securities of mainstream equities, property, infrastructure and fixed income asset classes in portfolios where one of the Product Issuers listed below engages a fund manager through an investment management agreement. This is because methodologies and processes for evaluating ESG risks and opportunities are currently more developed in these asset classes than for alternative assets.
The in-scope investment schemes covered under this framework are:

- OptiMix and OnePath branded investment schemes; and
- ANZ Smart Choice branded investment schemes.

The Product Issuers of the above investment schemes are:

- OnePath Funds Management Limited (OPFM) as Responsible Entity for a number of Managed Investment Schemes (MIS)
- OnePath Custodians Pty Limited (OPC) as trustee of the Retirement Portfolio Service (RPS) Fund.

This framework does not apply to:

- Advice services delivered by IOOF's aligned Advice Licensees, and;
- Investments offered by the above Product Issuers that are accessed by way of an acquisition of units in an external manager's underlying managed investment scheme.

Please refer to the Appendix A of this document for a list of managed investment schemes and superannuation fund investment options covered under the scope of this framework.

What is Responsible Investment?

Responsible investment is an umbrella term used to describe methodologies that incorporate ESG issues into the analysis, selection and monitoring of investments. There are a number of responsible investment approaches:

- Screening of Investments
- Sustainability Themed Investing
- Impact and Community Investing
- Corporate Advocacy and Shareholder Action
- ESG Integration.

The most widespread responsible investment practice is 'ESG Integration', which "involves the systematic and explicit inclusion of environmental, social and governance factors in traditional financial analysis and investment decision making[2]."

Responsible investment differs from 'socially responsible' or 'ethical investing' in that all information is considered that could be material to investment outcomes and does not solely factor moral or ethical values.

[1] Reference PRI - A-Practical-Guide-to-ESG-Integration-for-Equity-Investing_2016
PRI Practical-Guide-to-ESG-Integration-in-Sovereign-Debt_2019

[2] Principles for Responsible Investing

What are ESG Factors?

Environmental, Social and Governance factors encompass a broad range of issues that may, of themselves or in combination, impact the risk profile and return characteristics of an investment. The following table shows some examples:

Environmental (E)	Social (S)	Governance (G)
• Climate impact including greenhouse gas emissions; energy efficiency • Air and water pollution • Water scarcity/management • Biodiversity and site restoration	• Human Capital Management • Employee relations and diversity • Working conditions, including occupational health and safety • Labour standards (including in the supply chain)	• Board structure, diversity and independence • Executive remuneration (short and long-term incentives) • Bribery and corruption • Anti-competitive behaviour • Political lobbying and donations

Our Responsible Investment Beliefs

Investment beliefs are a series of high-level principles that reflect how a firm believes it will generate investment returns.

Pensions & Investments has developed three core Responsible Investment Beliefs to provide focus and enhance decision making.

Belief 1: ESG factors can be a source of opportunity and risk in the management of investment portfolios

- Environmental, Social and Governance (ESG) factors can influence the risk profile and investment returns of portfolios over the long term.
- Good outcomes for investors are best achieved by ensuring the underlying managers selected to manage our portfolios give appropriate consideration to ESG factors.
- As an asset owner, we recognise we have a responsibility to understand ESG risks and opportunities in the portfolios we manage.
- For asset owners, best practice Responsible Investment occurs through the Assessment, Selection and Monitoring of appointed managers[3]. We, therefore, evaluate the capabilities and extent of ESG integration, for each manager within our portfolios.

[3] PRI - A-Practical-Guide-to-ESG-Integration-for-Equity-Investing (2016)
PRI Practical-Guide-to-ESG-Integration-in-Sovereign-Debt_2019

Belief 2: Consideration of ESG factors assist in meeting our long-term performance objectives

- Consideration of ESG factors, such as climate change, requires a long-term focus. This is consistent with core aspects of our overall investment philosophy that emphasises a long-term view.
- The impact of ESG issues on a firm's financial performance tend to occur gradually, over time. Identifying ESG factors which can impact investment outcomes encourages and supports long term thinking.
- Ensuring underlying managers give proper consideration to ESG factors within their portfolios is consistent with this investment belief.
- We believe traditional quantitative scoring of factors tends to give too much weight to historical investment performance and takes insufficient account of other tangible or intangible factors that could drive sustainable performance over the long term.

Belief 3: Proxy voting and company engagement can positively influence corporate behaviour

- As a significant shareholder we have an opportunity to influence good corporate governance and to encourage sustainable operating practices.
- We therefore have a responsibility to cast proxy votes, on behalf of our customers, to influence the corporate governance of the companies in which we invest. This is consistent with our objective of achieving long term superior financial outcomes for our customers and creating a sustainable footprint in our community via responsible investment activities.

These Responsible Investment Beliefs will be regularly reviewed and, as best practice in this field continues to evolve, we will seek to enhance and grow our processes.

Our ESG Integration Approach

Pensions & Investments' approach to Responsible Investment is being progressively implemented. The following steps have been initiated as a means to embedding ESG factors as a key consideration within our investment processes for the in-scope portfolios.

External Managers

We undertake a formal assessment of each manager's approach to the integration of ESG matters, when assessing, selecting and monitoring investment managers and actively encourage these managers to employ and enhance, where appropriate, their ESG integration practices.

The ESG credentials of prospective managers are assessed within our manager selection process. Only high-quality managers with demonstrable skills in adding value in a risk-controlled manner are selected for inclusion in our portfolios.

Manager turnover is generally low, and our research efforts are focused on manager monitoring where we examine and test each manager's approach to considering ESG matters associated with security selection and overall management of the portfolio. This may include for example, exploring how the manager:

- utilises ESG factors for idea generation;
- assesses the risks of political or regulatory change within a sector; and
- considers social or environmental risks and opportunities within a company's supply chain.

Long-term Focus

We encourage a long-term approach from underlying managers and do not focus on short-term performance. Rather, we assess and analyse managers based on their investment style and require a consistent investment process. This allows us to look through short-term underperformance which may result from an investment style being out of favour.

Measurement and Reporting

Specialist ESG data and independent research has been introduced, to assist Portfolio Managers identify key ESG exposures at a strategy and aggregate portfolio level. This information and analysis forms part of regular reporting to Pensions & Investments management and relevant boards.

In-house analysis is supplemented with external research to assess and monitor the ESG profile and performance of managers. These resources are also used to engage with managers, to evaluate the extent of ESG integration in their portfolios and ensure risk is managed appropriately – now and into the future.

The ESG profile (at a security and portfolio level) is regularly monitored and periodically tested by assessing MSCI ESG Quality Scores of portfolios. These scores and underlying security ratings are designed to highlight ESG risks or opportunities that may not be captured through conventional analyses. Holdings with an elevated or heightened ESG risk profile are discussed with the manager to assess their investment thesis, understanding and management of potential risk or opportunities that may be present.

ESG reporting is required from underlying managers and forms part of the contractual arrangements when appointing managers. For incumbent managers, we are aiming to transition and amend agreements during 2020.

Active Ownership (Proxy Voting)

We respect the stewardship obligations we hold for our customers in the form of proxy votes and ensure these are exercised with care and diligence by the investment managers we engage and align with Pensions & Investments' responsible investment beliefs.

Pensions & Investments operates an investment management model primarily using external investment managers. Through investment management agreements, Pensions & Investments has delegated its voting rights to these specialist fund managers and obligates the managers to vote in the best interests of our customers. However, we reserve the right to direct how a manager should vote on particular matters of interest to Pensions & Investments and relevant to our responsible investment beliefs.

In general, our underlying managers are required to vote on all resolutions. We note there are circumstances where voting is either not possible or not in the best interest of the customer. In keeping with Financial Services Council Standards, we require an explanation from the managers in circumstances where votes are either abstained from or not lodged. This information is reviewed and published annually on the Pensions & Investments website.

Engagement (Fixed Interest)

Fixed income markets are significantly larger than equity markets and as such provides fixed income investors with plenty of opportunities to have a positive environmental and social impact. The rise of thematic investing, such as green bonds, is providing fixed income investors with the ability to directly finance those projects that address climate change. Bonds have also been issued to exclusively fund projects deemed ocean friendly (blue bonds) as well as to fund projects in areas such as health and education (social bonds).

The biggest challenge facing fixed income investors, with regards to ESG, relates to engagement. Unlike equity shareholders, bondholders do not have formal engagement arrangements, such as the ability to vote proxies or raise shareholder resolutions. However, that does not mean that bondholders do not have a voice nor a platform to use that voice.

Governments and companies are frequent issuers in the debt capital markets and, via road shows, investor updates and one-on-one meetings, bondholders can engage with governments and corporations and agitate them to manage their ESG risks and opportunities in a positive manner. Pensions & Investments encourages our fixed income managers to engage debt issuers to improve their transparency around the key ESG factors that we consider relevant.

Responsible Investment in Passive Portfolios

Index or passive managers are essentially long-term, and in some circumstance, near permanent investors given they are required to replicate an index. Unlike active equity managers, passive managers are generally unable to take direct action and sell out of securities that demonstrate poor ESG characteristics.

Therefore, engagement and exercising ownership rights (proxy voting) is the primary mechanism for effecting Responsible Investment for passive managers. These are important activities that should be used to influence positive change.

Pensions & Investments evaluate the ESG capabilities of passive or index managers by:

- assessing and monitoring the extent of active ownership in the form of company engagement and demonstration of investment stewardship; and
- engaging with and actively encouraging managers to enhance their proxy voting practices.

Position on Climate Change

Climate change

Climate change has the potential to result in both direct and indirect financial implications for Governments, companies and, therefore, long-term asset owner value. Pensions & Investments supports the goal of governments around the world seeking to limit the average global temperature rise to no more than 2°C above pre-industrial levels. Pensions & Investments seeks to apply similar principles to the investment portfolios we manage on behalf of our customers. As a first step, we are assessing the carbon footprint of our portfolios to identify sources of carbon risk. However, we note that while carbon foot printing can be a useful starting point, incomplete and at times inaccurate data continues to be an impediment to developing an accurate and comprehensive understanding of where carbon risk lies in managed funds. This lack of disclosure results in several limitations for carbon foot-printing portfolios[4] and we will be working with industry participants to progress initiatives for better carbon disclosure by underlying portfolio companies and issuers.

Concurrently we are engaging closely on this issue with underlying managers to assess their ability to incorporate and appropriately value the long-term implications of climate change on company holdings.

Over time, Pensions & Investments will implement the following measures to support a more comprehensive understanding of carbon risk:

- Require fund managers to demonstrate and report on their approach to evaluating carbon risk within their portfolios and to disclose the investment processes to support their views;
- Encourage asset managers to improve disclosure of material climate change impacts, consistent with the recommendations of the Task Force on Climate Change Financial Disclosure (TCFD);

[4] IGCC – Transparency in Transition - A Guide to Investor Disclosure on Climate Change

- Contribute to industry initiatives to increase awareness of climate change risks and the implications for investment decision making, by participating in relevant industry forums and collaborative initiatives, such as the Investor Group on Climate Change.

Controversial holdings

We recognise there are a range of views with respect to controversial holdings such as gambling, alcohol, tobacco and weapons. Pensions & Investments does not currently employ a screening approach for these types of investments, rather we require investment managers use a combination of active engagement with corporates to effect change and, to have a strong investment thesis on these types of investments.

In circumstances where customers may have a preference for specific, values-based investments, where possible, we will seek to offer investment options on our managed fund platforms.

Modern Slavery

Consistent with Belief 1 (that Environmental, Social and Governance (ESG) factors can influence the risk profile and returns of portfolios over the long term), we recognise that the 'social' component includes the importance of human capital management, working conditions and labour standards as potential risks in underlying investee companies and their supply chains.

The Australian Government introduced a modern slavery bill in November 2018 - Commonwealth Modern Slavery Act (2018). The Act forces companies of a certain size and revenue threshold to report on their own operations as well as their supply chains, and in the case of investors, the supply chains of underlying investee companies. There is also an expectation that companies who do not meet the minimum size/revenue levels will voluntarily report.

While there is no globally agreed definition of modern slavery, the identifying feature is the involuntary aspect of taking the job or accepting sub-standard working conditions, and a penalty or threat of penalty to prevent the individual from leaving the situation. Coercion can take many forms from physical or sexual violence to subtler means such as withholding wages or retaining identity documents, or the threat of denunciation to authorities.

With respect to the Responsible Investment framework, this policy will only deal with Modern Slavery monitoring and reporting from an investment perspective. Please note that this an emerging issue and policy for both OnePath and underlying investment managers is currently being formulated.

Modern Slavery Reporting

- Each manager is expected to report at least annually the initiatives they are undertaking with respect to Modern Slavery Risk;
- The underlying manager is to show how is fulfilling its obligations under the Act to the extent they are obligated, regarding its own supply chain as well as how they assess and mitigate risk in investee companies;
- To the extent that they are not obligated under the Act, underlying managers are expected to report on how they assess and mitigate risk in investee companies.

Governance and review frequency

The responsibility for the Responsible Investment Framework and approach rests with the Investment Team, while accountability lies with the respective Pensions & Investments Boards. The position statement is reviewed annually or more frequently as required, to ensure this information remains current and relevant.

Appendix A – Investment Options Covered by the Framework

The following managed investment schemes, sometimes referred to as 'Trusts' (or investment options when offered through a superannuation fund) are covered by this Responsible Investment Framework.

The **single sector OptiMix Trusts** which invest in fixed interest, shares, property and/or infrastructure securities (and where we select a number of investment managers to direct the portfolio under an investment management agreement), including:

- OptiMix Global Emerging Markets Share Trust
- OptiMix Global Smaller Companies Share Trust
- OptiMix Australian Property Securities Trust
- OptiMix Australian Share Trust
- OptiMix Global Share Trust

The **single sector Pensions & Investments Trusts** which invest in fixed interest, shares, property and/or infrastructure securities (and where we select a single investment manager to direct the portfolio under an investment management agreement), including:

- OnePath Australian Share Trust
- OnePath Emerging Companies Trust
- OnePath Select Leaders Trust
- OnePath Blue Chip Imputation Trust
- OnePath Sustainable Investments – Australian Shares Trust
- OnePath Global Emerging Markets Trust
- OnePath Global Shares Trust
- OnePath Property Securities Trust
- OnePath Australian Bonds Index Pool
- OnePath Australian Inflation Protected Securities
- OnePath Wholesale Diversified Fixed Interest Trust

The **passively implemented single sector Trusts** and/or investment options which invest in fixed interest, shares, property and/or infrastructure securities (and where assets are managed/directed by an external manager under an investment management agreement) including:

- OnePath Global Property Securities Index Trust
- OnePath Geared Australian Shares Index Trust
- OneAnswer – Vanguard Australian Shares Index Trust
- OneAnswer – Vanguard International Shares Index (Hedged) Trust
- OneAnswer – Vanguard Australian Property Securities Index Trust
- OneAnswer – Vanguard International Shares Index Trust
- ANZ Smart Choice Global Smaller Companies
- ANZ Smart Choice Global Property
- ANZ Smart Choice Australian Equities
- ANZ Smart Choice International Equities (Hedged)
- ANZ Smart Choice International Equities (Unhedged)

A range of **diversified Trusts** invest part of their assets in one or more of the abovementioned funds and are therefore partially affected by this Responsible Investment Framework. They also invest in other asset classes such as fixed interest and alternatives which are not part of the framework. These include:

- OnePath diversified investment funds
- OptiMix diversified investment funds
- OneAnswer – Vanguard diversified investment funds
- ANZ Smart Choice Life Stage and ANZ Smart Choice Conservative, Moderate and Growth investment options
- OnePath's MoneyForLife Index Conservative, Moderate and Balanced investment options

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