

NGS SUPER RESPONSIBLE INVESTMENT POLICY

*Managing long-term risks in order to
maximise prospective long-term returns*

EXTRACT FROM RESPONSIBLE INVESTMENT POLICY DOCUMENT

SEPTEMBER 2022

The purpose of this Responsible Investment Policy is to support the Trustee's Investment Governance Framework and set out a high level overview of the Fund's policy and approach to managing Environmental, Social and Governance (ESG) issues in its investments.

One of the Fund's investment beliefs is when every stakeholder in the process cares about ESG, it's better for long term returns. Responsible investment is in everything we do and, investing well can make a positive impact on society and achieve returns.

The principal objective of the policy is to ensure that Environmental, Social and Governance (ESG) risks and opportunities are adequately considered as part of the Fund's investment processes and to assist and guide the Fund in engaging with investment managers and companies to promote better governance practices.

Background

In accordance with the investment policy of the Fund and its strategic asset allocation, the Fund invests part of the Fund's assets in a diversified range of investments which include, but are not limited to, Australian and overseas-based listed equities, private equity, infrastructure, property, fixed interest and cash.

The Trustee regularly assesses and reviews its investments in the context of performance, risk and diversification considerations. The Trustee believes that properly understanding and assessing all likely material risks to its investments, and being fully cognisant of all material opportunities, is an inherent requirement of fulfilling its fiduciary duties to its members.

In selecting its investments and investment managers, the Fund is mindful of the general risk characteristics of each asset class and of the investment styles or approaches of each of the managers that it appoints.

However, the Fund is also aware that there are some risks and potential returns that its agents, in particular its investment managers, may not always focus on. This is particularly so in the equity asset classes, where manager time horizons tend to be from one to three years and where portfolio turnover is relatively high.

As a consequence of being a long-term investor, the Fund is of the view that it would not be fulfilling its fiduciary duty to its members if it did not seek to manage such long-term risks in order to maximise its prospective long-term returns.

RISKS, OPPORTUNITIES AND REGULATORY REQUIREMENTS



Such risks and opportunities largely fall into three categories:

- **Environmental** – There has been a major change in societal expectations over the past 30 years, such that environmental degradation is no longer accepted as an inevitable consequence of some industrial and mining practices. As such, enterprises that are either not aware of their environmental impacts, or are aware and fail to manage them, can pose a significant long-term investment risk. More recently, recognition of the threat posed by climate change has very substantially broadened the range of enterprises that could be subject to environmental risk. The Fund is strongly of the view that these exposures to risk must be managed.
- **Social** – Issues to do with labour market practices, respect and treatment of first nations peoples and land rights, modern slavery, occupational health and safety and product liability can pose very substantial reputational and regulatory risks and hence investment risk.
- **Governance** – The Fund is of the view that governance risks are a major long-term threat to investor value. These risks can be present, not just in equity assets, but in nearly all asset classes including corporate debt, property and infrastructure investments. Conversely, the Fund is of the view that, all other things being equal, good governance will tend to be rewarded over the longer term. Areas of governance are:
 - board composition, diversity (especially gender), refreshment and leadership
 - long term strategy and the treatment of sustainability issues
 - remuneration structures
 - general governance practices and corporate culture
 - human capital management
 - shareholder and stakeholder engagement.

The Fund accepts the conventional shorthand for these factors as 'ESG'.

The Fund is of the view that corporate awareness of, and responsible behaviour towards, ESG factors will act to both reduce investment risk and have a positive influence on long-term corporate performance.

In this regard the Fund believes that:

- disclosure should be a key focus that allows investors to better understand, evaluate and assess potential risk and return, including the potential impact of ESG factors on an entity's performance
- investment analysis should incorporate ESG factors to the extent that they affect long-term risk and return.

Regulatory Requirements

The regulatory requirements relating to responsible investment are including but not limited to:

- requirements contained in the *Superannuation Industry (Supervision) Act 1993 (Cth)* pertaining to disclosure and investment strategy.
- the *Modern Slavery Act 2018 (Cth)*. The Fund is a reporting entity within the Act and therefore must comply with the requirements.
- Information sheet INFO 271 issued by Australian Securities and Investments Commission (ASIC) on how to avoid greenwashing when offering or promoting sustainability-related products.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Policy on Responsible Investment

The Trustee recognises the need to go beyond traditional financial measures in order to fully understand the risks associated with existing and potential investments. Any potential financial impact of ESG factors on the Fund's investments needs to be considered and taken into account in investment decisions. They believe that the incorporation of ESG factors into the Fund's investment decision-making framework is an essential component in meeting its fiduciary obligations to its members.

The Trustee places specific ESG conditions on the Fund's investment mandates which are listed below. The below applies to all investment options, except the Indexed Growth investment option.

The Trustee approved the below fossil fuels exclusion on 23 June 2022 and later approved the tobacco, controversial weapons and nuclear weapons exclusions on 4 August 2022.

The fossil fuels exclusion was effected and embedded into the Fund's existing investment management agreements with its investment managers on or around 30 June 2022. The Fund is working towards formalising the revised tobacco, controversial weapons and nuclear weapons exclusions within the Fund's investment management agreements with investment managers by 31 October 2022.

These exclusions will be effected in all new investment manager appointments.

| Exclusion | Additional Information |
|--|---|
| <p>Tobacco</p> <p>We restrict companies:</p> <ul style="list-style-type: none"> that produce tobacco products¹ including alternative smoking products where their primary business² is the manufacture and supply of key products necessary for the production of tobacco products³. | <ol style="list-style-type: none"> Such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco. This also includes companies that grow or process raw tobacco leaves. Primary business is defined at 50% or more of annual revenue. Such as tobacco flavouring, cigarette filters (acetate tow), tobacco roll paper, cigarette manufacturing machines, and tobacco packaging (specifically cigarette cartons, films, and aluminium foil). <p>We do not exclude companies if they are involved in the production, manufacture, or marketing of nicotine replacement therapy via products like patches, gum, nasal sprays or other medication which are intended as quit nicotine products.</p> <p>We do not exclude companies' subsidiaries and investments – each company will be screened on their own merit. However, this will not preclude the Fund using estimates on the tobacco exposure within subsidiaries and investments to determine if a company complies with the above restrictions.</p> <p>Exclusion of tobacco retail and distribution will be considered on a case-by-case basis.</p> |
| <p>Controversial Weapons</p> <p>We restrict⁴ holdings with companies who manufacture controversial⁵ weapons. This includes manufacture of:</p> <ul style="list-style-type: none"> the weapon itself components which are intended for exclusive use in a controversial weapon. | <ol style="list-style-type: none"> No revenue threshold is applied when making this assessment. The assessment is binary. We include the following in our definition of controversial weapons: cluster munitions, landmines, antipersonnel landmines, antivehicle landmines, biological and chemical weapons and blinding lasers. |
| <p>Nuclear weapons</p> <p>We restrict holdings with companies:</p> <ul style="list-style-type: none"> that derive more than 4% of their revenue⁶ from the production of nuclear weapons that manufacture components for nuclear-exclusive delivery platforms⁷ that manufacture nuclear warheads and or whole nuclear missiles. | <ol style="list-style-type: none"> As reported by MSCI. These are platforms developed or significantly modified for the exclusive delivery of nuclear weapons. |

| Exclusion | Additional Information |
|---|--|
| <p>Fossil Fuels</p> <p>We restrict holdings with companies:</p> <ul style="list-style-type: none"> ▪ that generate more than 30% of their revenue⁸ from the distribution, power generation, or extraction of thermal coal ▪ who are in the oil and gas production and exploration sector.⁹ | <p>8. As reported by MSCI.</p> <p>9. For listed investments, as defined by the GICS sub-industry; for unlisted investments, and internal assessment is made.</p> |

Additional information applicable for all exclusions

These exclusions apply to all investment options except the Indexed Growth investment option. Exclusion assessment is based on business involvement screening provided by MSCI (the Fund’s ESG data provider) unless otherwise stated for listed assets. For unlisted assets, an internal assessment is made.

The Trustee can consider and apply exemptions to the exclusions. Please contact the Fund should you wish to know our current exemptions in place. One off exclusions can be determined by the CIO.

The Fund is a signatory to the Principles for Responsible Investment (PRI). The PRI are a set of six aspirational principles developed by an international group of institutional investors in a process convened by the United Nations’ Secretary General.

The PRI establishes a collective international framework for institutional investors to integrate ESG matters into their investment decision-making. Accordingly, where consistent with the Trustee’s fiduciary responsibilities, NGS Super commits to the following substantial components of the framework outlined by the PRI:

Wherever practicable we will seek to incorporate ESG issues into investment analysis and decision-making processes.

This includes the following:

- address ESG issues in the Fund’s investment governance framework
- support the development of ESG-related tools, metrics and analysis
- assess the capabilities of external investment managers to incorporate ESG issues
- assess the managers maturity in assessing and integrating climate change risks within the investment selection and monitoring process ensuring alignment with the Fund’s position on climate change
- ask investment services providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis
- encourage academic and other research on this theme.

We will be active owners and incorporate ESG issues into our ownership policies and practices.

This includes the following:

- develop and disclose an **Active ownership and engagement policy** with respect to the entities in which we invest
- exercise the Fund’s voting rights (refer our website under the **NGS Super Proxy Voting** section) and seek to monitor manager’s voting where invested in pooled vehicles
- seek to support direct engagement with corporate entities in which the Fund is either invested or may become invested
- participate in the development of policy, regulation and standard-setting (such as promoting and protecting shareholders’ rights)
- ask investment managers to undertake and report on ESG-related engagement.

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

This includes the following:

- support the introduction of standardised reporting on ESG issues
- ask for ESG issues to be integrated within annual financial reports
- ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives
- support shareholder initiatives and resolutions promoting ESG disclosure.

We will promote acceptance and implementation of ESG issues within the investment industry.

This includes the following:

- include ESG-related factors in considering the appointment of new investment managers
- communicate ESG expectations to investment service providers
- revisit relationships with service providers that fail to meet ESG expectations
- support the development of tools for benchmarking ESG integration
- support regulatory or policy developments that enable better integration of ESG factors into investment decision-making.

We will work with other investors to enhance our effectiveness in implementing ESG issues within the general investment framework.

This includes the following:

- support/participate in networks and information platforms to share tools, pool resources, and make use of investors reporting as a source of learning
- seek to collectively address relevant emerging issues
- develop or support appropriate collaborative initiatives.

We will work to develop a framework to enable us to report on our activities and progress towards incorporating ESG issues in our investment and business processes.

This includes the following:

- seek to disclose how ESG issues are integrated within our investment practices
- disclose our active ownership activities including voting, engagement, and/or policy dialogue
- disclose what is required from service providers in relation to the incorporation of ESG principles
- seek to make use of our reporting to raise awareness of ESG issues among a broader group of stakeholders.

Our position on Climate Change and CN2030

We have entered a decisive decade for humanity, with the warnings about the impact of inaction on climate being evidenced around the world. Economic systems will face major disruption and therefore we need to make a paradigm shift in our economic models to protect our members' retirement savings. The Fund has taken a bold step and in 2021, announced our ambitious target to transition the portfolio (Diversified (MySuper)) to carbon neutral by 2030 (CN2030).

The Fund believes that drastic action is required to contribute to change. By using the collective capital of committed NGS members, the Fund will support companies building sustainable, lower carbon businesses, while aiming to improve on current average long-term investment returns for members. The work undertaken by the Investments team over the course of 2021 confirmed that a carbon-neutral investment portfolio by 2030 is achievable, and enabled the Fund to set an interim target of a 35% reduction in carbon by 2025.

For further information, please refer the Fund's [Statement on Climate Change](#).

Exclusion of scope III / stranded assets

As part of the Fund's CN2030 work, the Trustee has provided the CIO with the delegated authority to consider and execute the exclusion of the scope III / stranded assets from the listed portfolio by 2025.

Initiatives that support the Fund's investment objectives

In keeping with the collaborative emphasis in much of the Fund's Responsible Investment Policy, the Fund will seek to join with others to help achieve the objectives of the policy.

This may include:

- joining organisations whose objectives are consistent with the policy
- sponsoring the establishment of new organisations whose objectives are consistent with the policy
- entering into engagement and policy initiatives with others to help comply with the policy.
- obtaining services from specialist third parties required to execute on our ESG objectives

In keeping with these principles, the Fund has joined, sponsored or partnered with the following organisations:

- Principles for Responsible Investment (PRI)
- Australian Council of Superannuation Investors (ACSI)
- Federated Hermes International EOS Stewardship Services
- ESG Research Australia
- Responsible Investment Association of Australasia (RIAA)
- Climate Action 100+

The Fund will continue to actively seek opportunities to join with like investors to help achieve the objectives of the Fund's Responsible Investment Policy.

Australian Council of Superannuation Investors (ACSI)

ACSI is a not-for-profit organisation which provides ESG research, advice and services to its members. The Fund is a member of ACSI and holds a seat on its Member Advisory Council which works to establish the strategic direction of ACSI and to serve as its policy-making body.

Membership of ACSI provides the Fund with:

- independent research and advice on the ESG risk of companies
- advice on governance practices of companies
- a forum to engage with companies to improve governance practices
- a set of comprehensive corporate governance guidelines, which the Fund adopts.

Voting

The Fund has engaged CGI Glass Lewis to provide a research platform and proxy voting system for the Fund to exercise its proxy voting rights.

In the interest of good governance and our commitment to our **Active ownership and engagement policy**, we publish real time interactive proxy voting history including the name of the company, the meeting date, country where the vote took place, the nature of the resolutions and how the Fund voted. This can be viewed on our website under the **NGS Super Proxy Voting** section.

Consequences for non-compliance

Any identified breach or potential breach of this policy is managed via the Fund's overarching incident management framework.

Consequences of breach may result in the following with the impacted investment manager:

- dispute resolution
- financial penalties
- termination.

Members will be informed of breaches of the Responsible Investments Policy where deemed necessary under the Fund's incident management framework.



More information?

Contact us

You can contact us at
ngssuper.com.au/contact-us
or call us on **1300 133 177**
Monday to Friday, 8am–8pm
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Need help?

If you are thinking about which investment option might be right for you, consider obtaining professional advice for your personal situation.

We offer single-issue advice limited to your NGS Super account at no cost:

- over the phone through our Financial Advice Helpline
- through our **Super Specialists** who you can talk to over the phone or meet either virtually or face-to-face.

We also offer low-cost tailored advice through NGS Financial Planning. To make an appointment phone us on **1300 133 177** or complete the **Financial planning enquiry form** at ngssuper.com.au/advice

Important information

The information provided in this policy document is general information only and does not take into account your objectives, financial situation or needs. Before making a financial decision, please assess the appropriateness of the information to your individual circumstances and consider seeking professional advice.

NGS Financial Planning Pty Ltd, ABN 89 134 620 518, is a corporate authorised representative #394909 of Guideway Financial Services Pty Ltd, ABN 46 156 498 538, AFSL #420367 and offers financial planning services on behalf of NGS Super ABN 73 549 180 515.