APRA Regulated Entity Responsible Investment Position Statement

July 2021

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1. Introduction

1.1. Purpose and Application

This Responsible Investment Position Statement (**Statement**) defines the role that responsible investment plays in the assessment, selection and monitoring process of externally appointed investment managers (**Managers**) and outlines the protocols and processes for identifying and managing Environmental, Social and Governance (**ESG**) impacts, risks and opportunities across the following APRA Regulated Entities' investment menus and Products[1].

- IOOF Investment Management Limited (IIML)
- One Path Custodians Pty Limited (OPC)
- Oasis Fund Management Limited (OFM)
- IOOF Limited (IL)

This Statement applies to the securities of equities, property, fixed income, and cash asset classes in portfolios of managed investment schemes available as investment options on each ARE's investment menus or through its Products and Platforms.

Alternative asset class fund managers are not currently in scope as the methodologies and processes for evaluating ESG risks and opportunities are currently less developed in this asset class. Additionally, portfolio exposures to alternative assets are typically achieved via pooled investment vehicles, with pre-defined terms, as opposed to Investment Management Agreements (**IMAs**).

It is the intent of the AREs to over time develop and integrate an appropriate level of ESG due diligence for existing and prospective alternative asset class investment options.

The Statement is aligned with the IOOF Group ESG strategic initiative – "Responsible Investing" and will continue to be developed and enhanced in alignment with the IOOF Group ESG Roadmap.

1.2. Objectives

The application of this Statement assists the AREs in meeting the following ESG objectives:

- achieving superior long-term investment outcomes for Members[2]; and,
- seeking to understand and manage the social and environmental impacts of the investment options available on our investment menus and through the Products to create a more sustainable footprint in the community.

The objectives and requirements detailed in this Statement are fiduciary based and recognise the diverse ARE membership and the AREs' overall investment strategy of providing Members with Products that offer a diverse choice of investment options.

[1] Products for the purposes of the Statement refer separately or collectively where relevant to Superannuation Products and Friendly Society Products.

[2] Members in the context of this Statement include Superannuation Fund Members and Friendly Society Policy Owners.

2. What is Responsible Investment

Responsible Investment (**RI**) 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 RI approaches:

1. **ESG Integration** – Systematic and explicit inclusion of ESG factors in the investment decision making process to improve investment outcomes;
2. **Active Ownership** - Engagement with companies (including via proxy voting) to improve investment outcomes;
3. **Sustainability Themed Investing** - Impact investing targeting areas which generate attractive returns with sustainability social improvement themes; and
4. **Exclusion** - Screening out companies or industries assessed to represent a long-term risk to returns due to negative ESG factors that cannot be mitigated via ESG Integration, Active Ownership, or Sustainability Themed Investing.

The most widespread approach is **ESG Integration** which is considered the most appropriate given ARE's ESG objectives. All four approaches may be deployed as deemed appropriate. Exclusion is reserved for companies or industries where other approaches cannot reasonably be expected to achieve our objectives.

RI 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.

3. ESG Principles

ESG Principles 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 of areas covered under ESG:

Environmental (E)	Social (S)	Governance (G)
• Contribution to climate change initiatives through reduction in greenhouse gas emissions, along with waste management and energy efficiency	• Human rights • Labour standards in the supply chain • Workplace health and safety • Integration with local community and earn a social licence to operate	• Rights, responsibilities and expectations across as stakeholders. • Board structure, diversity and independence • Executive remuneration (Short and long-term incentives) • Bribery and corruption • Anti-competitive behaviour • Political lobbying and donations

4. Our Responsible Investments Beliefs

Our Responsible Investment Beliefs (RI Beliefs) complement the AREs' wider Investment Beliefs and seek to enhance decision making and generate investment returns. The Investment Beliefs promote ESG principles and factors in our investment decisions and offerings. Three high level RI Beliefs have been identified:

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

- ESG factors can influence the risk profile and investment returns of portfolios over the long term.
- Good outcomes for Members are best achieved by ensuring that wherever possible, the fund managers of the underlying investment options selected for inclusion on our platforms give appropriate consideration to ESG factors.
- We recognise we have a responsibility to understand ESG risks and opportunities in the investment options on our superannuation platforms and through our Products.
- Best practice Responsible Investment occurs through the assessment, selection and monitoring of investment options selected for inclusion on our investment menus. We therefore commit to considering the capabilities and extent of ESG integration wherever possible.

Belief 2: Consideration of ESG factors assist in meeting 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, wherever possible product providers and fund managers giving proper consideration to ESG factors within their products is consistent with this investment belief.
- Traditional quantitative scoring of factors tends to give too much weight to historical factors 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

- The AREs will vote on unit holder resolutions where there are exceptional circumstances that may cause adverse outcomes for Members.
- In such cases, the ARE's' delegated authority will assess whether the resolution if passed would on balance have any material negative impact on Members, and if so will instruct the Manager to vote in Members' best interest.

These RI Beliefs will be regularly reviewed and, as best practice evolves, the AREs will seek to continue to enhance our ESG processes in alignment with the IOOF Group ESG Roadmap.

5. Our ESG Integration Approach

The AREs' approach to RI is being progressively implemented. The following steps have been initiated to facilitate embedding over time of ESG factors as a key consideration within our investment option selection process.

5.1. External Investment Managers

The existing Manager due diligence, selection and monitoring practices have been enhanced to include an evaluation of each Manager's ESG methodologies and capabilities. In-house analysis by IOOF Research is supplemented by independent external research provided by experienced asset consultants such as Mercer Investments (Australia) Limited (**Mercer**), which analyse and rate Managers' ESG processes.

The IOOF Research team will undertake a formal assessment of each Manager's approach to the integration of ESG matters, when assessing, selecting and monitoring investment options and will actively encourage managers to, where appropriate, implement or and enhance their ESG integration practices.

The ESG credentials of investment options products will be assessed within our Managed Funds Research process.

Our research efforts are generally focused on Manager monitoring where we will examine and review each Manager's approach to considering ESG matters associated with security selection and overall management of their 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 ESG risks and opportunities in a company's supply chain.

In addition, the ARE's annual stress testing of all investment options includes ESG aligned scenarios as follows;

- **Transition** – Tests the potential market reaction to a sudden shift in the likelihood of a 2ºC scenario, where economies transform to a low-carbon energy mix and there is the greatest chance of lessening physical damages, together with greater market awareness of this shift. The scenario temperature refers to the global mean surface increase above pre-industrial levels by 2100.
- **Low Mitigation** – Tests the potential market reaction to a sudden shift in the likelihood of a 4ºC scenario, reflecting fragmented policy pathways to a low-carbon economy and there is a serious failure to alleviate anticipated physical damages, together with greater market awareness of this shift. The scenario temperature refers to the global mean surface increase above pre-industrial levels by 2100.

5.2. Related Party Investment Managers

ARE investment menus include managed investment options where an IOOF related party is the Responsible Entity **(RE)** or Investment Manager. The AREs place reliance upon the application and effectiveness of related party RE or Investment Manager ESG policies and procedures.

The status of related party RE or Investment Manager ESG policies is assessed annually as part of the ARE's related party Operational Due Diligence review.

5.3. Long-term Focus

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

5.4. Measurement and Reporting

ESG reporting may be requested from Managers in addition to the annual attestation process to assist in monitoring their progress to integrate ESG consideration into their investment processes. There is an expectation that for some Managers and asset classes there will be less advanced reporting capabilities, and, these will be actively monitored.

Specialist ESG data and independent research will be drawn upon to assist the AREs to identify key ESG exposures for an investment option.

In-house analysis will be supplemented with external research to assess and monitor the ESG profile and performance of Managers and underlying investment options. These resources will also be utilised to evaluate the extent of ESG integration in Manager portfolios and ensure risk is managed appropriately – now and into the future.

For ARE Products, the ESG profile (at a security and portfolio level) may be 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.

This information and analysis may form part of regular reporting to the ARE Boards and Committees.

5.5. Active Ownership (Proxy Voting)

The AREs respect the stewardship obligations they hold for Members in the form of proxy votes and monitor through Manager engagement that they are exercised with care and diligence by the Managers and align with the AREs' RI Beliefs.

The menu of investment option provided by the AREs is comprised predominantly of external investment Managers. While the AREs have delegated their voting rights to these specialist Managers and oblige the Managers to vote in the best interests of our Members, the AREs reserve the right to request how a Manager should vote on particular matters of interest to the AREs as relevant to their RI beliefs and members best interests.

In general, our preference for underlying Managers to vote on all resolutions in the best interests of our members is communicated to Managers upon addition to the investment menus. There are circumstances where voting is either not possible or not in the best interest of the Member.

5.6. Proxy Voting Unlisted Managed Investment Schemes (Super/Pension)

For managed investment schemes managed by an external party, where ARE owns units in an unlisted managed investment scheme, it will not vote on unit holder resolutions unless there are exceptional circumstances; for example, if there could be adverse outcomes for Members if the AREs did not participate in the vote.

Where there are exceptional circumstances (for example, if there could be adverse outcomes for Members) a decision may be required in determining whether to vote with regard to a resolution for Members invested in an unlisted managed investment scheme. In such cases, the ARE's delegated authority will assess whether the resolution, if passed, would on balance, have any material negative impact on Members. If there is likely material negative impact then the AREs will vote on behalf of Members.

5.7. Engagement (Fixed Interest)

Fixed income markets are significantly larger than equity markets and as such provide fixed income investors with additional opportunities to have a positive environmental and social impact. The rise of thematic investing, such as green bonds, provides 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 or 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 to manage their ESG risks and opportunities in a positive manner. The AREs encourages our fixed income Managers to engage debt issuers to improve their transparency around the key ESG factors that they believe are relevant (see Section 4).

5.8. Directly Held Equities

Choice Members who directly hold ASX listed securities on the IIML (ex AET Small APRA Fund) (SAF), OPC and OFM investment menus are not permitted to vote on securityholder resolutions due to the complexities and systems limitations on capturing, recording and submitting Member proxy directions.

For IIML, OPC and OFM, where there are exceptional circumstances (for example, if there could be adverse outcomes for Members) a decision may be required in determining whether to vote with regard to a resolution for Members invested in an ASX listed company security. In such cases, the ARE's delegated authority will assess whether the resolution, if passed, would on balance, have any material negative impact on Members. If there is likely material negative impact then the AREs will vote on behalf of Members.

Members of an AET Small APRA Fund (SAF) who directly hold ASX listed securities may vote on securityholder resolutions in accordance with the AET Proxy Voting Procedure.

6. Responsible Investment in Passive and Systematic Portfolios

Index or passive managers are essentially long-term, and in some circumstances, near permanent investors given they are required to replicate an index. Unlike active managers, passive and some systematic 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 RI for passive and some systematic managers. These are important activities that should be used to influence positive change.

The AREs may 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.

7. Position on Climate Change, Controversial Holdings and Modern Slavery

7.1. Climate Change

Climate change may have direct and indirect financial implications for companies and therefore long-term shareholder returns. Climate change forms part of the overall RI approach.

Over time, the AREs may consider the following measures to support a more comprehensive understanding of carbon risk:

- encourage 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 Managers to improve disclosure of material climate change impacts, consistent with the recommendations of the Task Force on Climate Change Financial Disclosure (TCFD); and
- contribute to industry initiatives to increase awareness of climate change and the implications for investment decision making, by participating in relevant industry forums and collaborative initiatives, such as the Investor Group on Climate Change.

The AREs incorporate climate change scenarios as part of the annual stress testing program.

7.2. Controversial Holdings

The AREs recognise there is a range of views with respect to controversial holdings such as gambling, alcohol, tobacco and weapons.

The AREs do not currently employ a screening approach to these types of investments, but rather require Managers to use a combination of active engagement with companies to effect change and, to have strong investment thesis on these types of investments.

Where particular stocks or industries are assessed to have negative ESG qualities representing long term risk to performance and these ESG issues cannot be mitigated via the RI approaches such as Integration, Active Ownership, or Themed Investing, the ARE Boards may resolve to exclude such companies or industries from certain asset classes.

Tobacco Manufacturers are currently listed for preferred exclusion by the AREs in equity, cash, fixed income, alternatives and property portfolios. With respect to related party funds available on the investment menus or through the Products, Tobacco Manufacturers are excluded by IOOF Investment Services Limited and there is an intention to implement this by OnePath Funds Management Limited for its funds.

7.3. Modern Slavery

Consistent with RI Belief 1 that ESG factors can influence the risk profile and returns of portfolios over the long term, the AREs 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 Modern Slavery Act (2018) requires companies of a certain size and revenue threshold to report on modern slavery risks in 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.

This Statement will only deal with Modern Slavery monitoring and reporting from an external investment Manager perspective. As detailed in the *IOOF Group Modern Slavery Policy (Policy),* external Managers are included in the definition of “Suppliers” for the purpose of the Know Your Supplier requirements under the Policy. External Managers are requested to provide confirmation of their Modern Slavery maturity as part of the annual Manager attestation process.

The application of the Policy to Managers will continue to be aligned to IOOF’s Modern Slavery maturity commitment as detailed in the Policy.

8. Document Information and Review

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