OPFM Responsible Investment Policy

Overview

Introduction

This Responsible Investment Policy (**Policy**) is part of the Responsible Investment Framework and defines the role that responsible investment plays in the assessment, selection and monitoring process of externally appointed investment managers (**Managers**) and outlines the framework for identifying and managing Environmental, Social and Governance (**ESG**) risks and opportunities across a number of Managed Investment Schemes (**Schemes**).

Policy Statement

This Policy applies to the securities of mainstream equities, property, fixed income, and cash asset classes in portfolios where an external Manager is engaged through an Investment Management Agreement (**IMA**). This is because methodologies and processes for evaluating ESG issues are currently more developed in these asset classes than for alternative assets. Additionally, portfolio exposures to alternative assets are typically achieved via pooled investment vehicles, with pre-defined terms, as opposed to IMAs.

While the alternative asset class is not within the scope of this Policy, the intention over time is to develop and integrate an appropriate level of ESG due diligence for existing and prospective Managers, reflective of the applicability of ESG considerations to the relevant sub-asset class and/or strategy.

Scope and Application

This Policy applies to the following Responsible Entity (**RE**) within the Insignia Financial Ltd (**IFL**):

- OnePath Funds Management Limited (**OPFM**)
- The application of this Policy assists the RE in meeting the following objectives:
- Achieving superior long-term investment outcomes for investors; and
- Seeking to understand and manage the ESG implications of the investments to create a more sustainable footprint in our community.

What is Responsible Investment?

Responsible Investment (**RI**) is a commonly used term to describe the practice of incorporating ESG considerations into the research, analysis, and selection of investments, and the implementation of good stewardship practices.

The key pillars of RI are:

1. **ESG Integration** – Systematic and explicit identification and consideration of material ESG issues in the investment decision-making process to improve investment outcomes; and
2. **Active Stewardship** – exercising ownership and/or other rights that are conveyed through securities (or financial instruments), such as proxy voting, and engaging with the issuing companies to improve investment outcomes.

It is commonly accepted that ESG Integration and Active Stewardship are the key aspects of RI as practiced across the asset management industry and recognised by the global peak industry body Principles of Responsible Investment (**PRI**).

ESG Integration contributes to improved risk-adjusted returns for investors. Active Stewardship that supports good governance practices and acts to ensure companies appropriately consider material ESG issues should contribute to the long-term sustainability and valuation of investments. Together, ESG Integration and Active Stewardship contributes to more attractive risk-adjusted returns for investors.

ESG and sustainability issues are defined in the ESG and Sustainability section below.

As defined here, RI and this Policy do not determine the investment universe of the RE's or the Managers.

Various other investment approaches are also considered to be consistent with and complementary to RI but are not necessarily addressed by this Policy, as follows:

- 'Socially Responsible' or 'Ethical' investing which may emphasise moral or ethical considerations and values over other information that may be relevant to investment outcomes;

- 'Sustainable Investing' which explicitly targets companies that have a measurable and specific benefit on society such as being aligned to one of the United Nations Sustainable Development Goals (**SDGs**);
- 'Negative Screening', or excluding particular companies from an investment universe because of their particular business activity e.g. tobacco producers;
- 'Positive Screening' or 'Thematic' investing which limits an investment universe to companies that undertake a specific activity e.g. renewable energy-related companies; and
- 'Impact' investing which explicitly acknowledges that investment returns are made up of both financial returns and measurable societal benefits, representing an investment outcome that would be not achievable in the absence of the long-term commitment of investors capital (known as additionality).

The use of one or more of these investment approaches requires approval from the RE's and must take into consideration client's best interests.

The Controversial Holdings section details the approach to addressing companies or industries where RI and other investment approaches cannot reasonably be expected to achieve the RE's objectives (otherwise known as Controversial Holdings).

Investment Team

The Chief Investment Officer (**CIO**), who leads the Investment Team within the Asset Management Division, is responsible for the overall management of investments of the OPFM Schemes. A key objective is to build and preserve investors' wealth over the long term. RI is an important consideration in achieving this objective and is employed by utilising internal frameworks to assess the financial impact of climate risk to diversified funds and assessing the ESG capabilities of the Managers engaged under an IMA.

The Investment Team completes appropriate due diligence on all external investment Managers, to ensure all ESG factors are considered in the evaluation process. All underlying Managers must be able to demonstrate they have the capability to identify risks and opportunities associated with ESG issues in their investment portfolios.

A range of processes have been introduced to existing Manager due diligence, 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 provided by experienced asset consultants such as Mercer Investments (Australia) Limited (**Mercer**), which analyse and rate Managers' ESG processes. The Investment Team utilises Mercer to engage with incumbent and prospective Managers and to evaluate the extent of integration of ESG criteria in their respective investment process.

ESG and Sustainability Issues

There are a broad range of ESG 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 by (but not limited to) the broad headings of Environment, Social and Governance:

Environmental (E)	Social (S)	Governance (G)
• Contribution to climate change initiatives through reduction in greenhouse gas emissions • Waste management • Energy efficiency • Water supply • Pollution • Biodiversity	• Human capital management • Labour standards • Modern slavery • Diversity, Equity and Inclusion • Workplace health and safety • Integration with local community and earning a social licence to operate • Indigenous rights • Employee engagement	• Rights, responsibilities and expectations across all stakeholders. • Board structure, diversity and independence • Executive remuneration (short and long-term incentives) • Bribery and corruption • Anti-competitive behaviour • Political lobbying and donations • Shareholder rights • Tax strategy

Sustainability issues are a broad range of issues that impact a company's ability to generate long-term shareholder value. These issues include, but are not limited to:

- Management as stewards of capital;
- The industry within which capital is being stewarded;
- Financial and physical capital (financial and manufactured assets on balance sheet); and
- Non-financial capital (intangible forms of capital often not reflected on balance sheet such as human capital, social and relationship capital, natural capital, intellectual capital).

The consideration of ESG and sustainability issues in an investment context is evolving. It is expected that issues in addition to those covered above will be recognized over time.

Responsible Investment Beliefs

The RE's RI Beliefs complement our wider investment beliefs and seek to enhance decision making and generate investment returns. The RI Beliefs promote ESG principles and considerations in our investment decisions and offerings. The RI Beliefs are:

Belief 1: ESG issues 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 investors are best achieved by ensuring the underlying managers selected to manage 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. We, therefore, evaluate the capabilities and extent of ESG integration, for each manager within our portfolios.

Belief 2: Consideration of ESG issues assists 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 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 investors, 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 investors and creating a sustainable footprint in our community via responsible investment activities.

Belief 4: Climate change creates significant long-term risks and opportunities that require special attention

- We believe that the emissions of greenhouse gases (GHGs) into the atmosphere, accelerates climate change and this carries significant risks to human health, economies and ecosystems.
- Since the Paris Agreement was signed, it is recognised that reaching net zero carbon dioxide emissions around 2050 is required to minimise the negative impact of climate change. We believe global coordinated effort is required and as a result Insignia Financial has adopted 2050 net zero targets.
- Coupled with regulatory tailwinds, technological innovation is giving rise to increasing investment opportunities from the provision of climate and environmental solutions, in areas including clean energy and mobility, sustainable buildings and advanced materials

These RI Beliefs will be regularly reviewed and, as best practice in this field continues to evolve, we will seek to enhance and continue to grow our processes in alignment with the Insignia Financial Group Corporate ESG Strategy and ESG Roadmap.

Our ESG Integration Approach

The REs approach to RI is being progressively implemented. The following steps have been initiated as a means to embedding ESG factors as a key consideration within our investment process.

External Investment Managers

The Investment Team undertakes a formal assessment of each Manager's approach to the integration of ESG matters, when assessing, selecting and monitoring Managers and actively encourages 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

The Investment Team encourages a long-term approach from underlying managers and does not focus on short-term performance. Rather, the Investment Team assesses and analyses Managers based on their investment style and requires a consistent investment process. This allows the Investment Team's Portfolio Manager to look through short-term underperformance which may result from an investment style being out of favour.

Measurement and Reporting

ESG reporting may be requested from Managers to assist in monitoring their progress to integrate ESG considerations into their investment processes. There is an expectation that some Managers and asset classes will be less advanced in their reporting capabilities, however, these will be actively monitored.

Specialist ESG data and independent research is available to assist the Investment Team's Portfolio Managers to identify key ESG exposures at a strategy and aggregate portfolio level. This information and analysis forms part of six monthly reporting to the RE 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.

For all Schemes, 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. These scores may be used as a tool to engage with Managers to better understand how they think about potential ESG risks or opportunities that may be present in their portfolios.

Active Ownership (Proxy Voting)

The Investment Team respects the stewardship obligations it holds for investors in the form of proxy votes and ensures these are exercised with care and diligence by the Managers and aligns with the REs RI beliefs.

The Investment Team operates an investment management model primarily using external investment Managers. Through IMAs, the RE has delegated its voting rights to these specialist Managers, subject to the RE being provided with a copy of the Manager's proxy voting policy and being notified of any material changes to the policy. The Investment Team reserves the right to direct how a Manager should vote on particular matters of interest to the RE and relevant to our RI beliefs.

In general, our underlying Managers are encouraged to vote on all resolutions. There are circumstances where voting is either not possible or not in the best interests of the investor. In keeping with Financial Services Council Standards, an explanation may be sought from the managers in circumstances where votes are either abstained from or not lodged.

Engagement (Fixed Interest)

Fixed income markets are significantly larger than equity markets and as such provide 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. The Investment Team encourages our fixed income managers to engage debt issuers to improve their transparency around the key ESG factors that we consider relevant (see the ESG and Sustainability Issues section).

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 Investment Team evaluates the ESG capabilities of passive or index managers for the in-scope investments 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, Controversial Holdings and Modern Slavery

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 Investment Team 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 fund 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.

Controversial Holdings

The Investment Team recognises there are a range of views with respect to controversial holdings such as gambling, alcohol, tobacco and weapons. We do not currently employ a screening approach to these types of investments, rather we require Managers use a combination of active engagement with corporates 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, then the OPFM Board may agree to exclude such companies or industries from certain asset classes.

Modern Slavery

Consistent with RI Belief 1 that 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 *Modern Slavery Act 2018* (Cth) requires 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 managers and/or 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 RI framework, this policy will only deal with Modern Slavery monitoring and reporting from an investment perspective. As detailed in the *Insignia Financial Modern Slavery Policy* understanding the underlying investments made by the selected investment managers will continue to form a core part to understanding Insignia Financials' Modern Slavery exposure. An annual Modern Slavery questionnaire will be disseminated for completion, providing Insignia Financial with opportunities to further understand potential risk areas within its supply chain.

This Policy is current as at 25 May 2023

PLA-27946 (55354) 1223