

ESG Risk Management Policy

Suncorp Portfolio Services Limited

ABN 61 063 427 958

AFSL 237905

RSE Licence No. L0002059

Suncorp Master Trust ABN 98 350 952 022

Status: FINAL

Version: v7.0

Date: 24 September 2020

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1. Background

Currently one of the fastest growing investment processes relates to taking into consideration a range of Environmental, Social and Governance (“ESG”) principles. According to Responsible Investment Association Australasia 2019 Benchmark Report “*The responsible investment market continues to grow with associated Assets Under Management (AUM) up 13% over the course of 2018 to \$980 billion. This represents 44% of total professionally managed AUM, which now sits at \$2.24 trillion according to the Australian Bureau of Statistics (ABS)... The dominant responsible investment strategy is ESG integration, which represents 45% of AUM...*”

The Financial Services Council (FSC) is a leading peak body which sets mandatory Standards and develops policy for more than 100 member companies in one of Australia’s largest industry sectors, financial services. Under FSC Standard No.20 Superannuation Governance Policy (Standard) all FSC members who are trustees operating a Registrable Superannuation Entity (“RSE”) are required to implement and develop an ‘Environmental, Social and Governance Policy’ and disclose that policy to RSE members publicly. This policy adheres to the Standard and aims to disclose the approach undertaken in our investment process.

2. Application

The Standard applies to FSC Members broadly, however, is binding upon FSC Members who are trustees holding a public offer or extended public offer licence to operate a RSE under the provisions of the Superannuation Industry (Supervision) Act 1993 and Regulations (collectively, SIS) in relation to each public offer fund that the FSC Member operates. The Standard applies to an RSE’s employer default Superannuation product (Suncorp Lifestage Funds) offered by relevant ‘MySuper’ authorised RSEs, which includes Suncorp Portfolio Services Limited (the “Trustee”) and has been extended to include select Suncorp branded ‘Choice’ investment options, including the following:

Default MySuper investment option:

- Suncorp Lifestage Funds (based on a member’s age)

Choice investment options:

- Suncorp Multi-Manager Funds (Conservative, Balanced, Growth & High Growth);
- Suncorp Universal Funds (Conservative, Balanced & Growth);
- Suncorp Australian Shares Fund;
- Suncorp Australian Shares Multi-Manager Fund;
- Suncorp Australian Shares Value Fund; and
- Suncorp International Shares Multi-Manager Fund.

These are known collectively as the ‘**Suncorp Funds**’ within the Suncorp Master Trust (“**SMT**”). This is typically either a single or multi-manager configuration across the asset classes for the Suncorp Funds.

This document constitutes the ESG Risk Management Policy for the Trustee as required by the Standard and extends the ESG approach as it applies to the Trustee’s ‘MySuper’ product in conjunction with select Suncorp branded ‘Choice’ investment options which members’ benefits are invested.

3. ESG Approach

The Suncorp Funds are issued by the Trustee. The Suncorp Funds may either invest indirectly via trusts, or directly in individual securities and Exchange Traded Funds (“**ETFs**”). The Trustee has engaged Morningstar Investment

Management Australia Limited (“**Morningstar**”) through an Investment Management Agreement to provide investment services in relation to the asset allocation and targeted investment management services.

The Suncorp Funds may invest in trusts issued by Morningstar. Morningstar has actively developed a Responsible Investment Policy for their investment process. When appointing investment managers, Morningstar applies a stringent governance process, which includes an assessment of the investment manager’s approach in capturing the impact of ESG risks on their investments. Morningstar does not instruct appointed investment managers to specifically avoid certain companies or industries, however, Morningstar believes that ESG issues can impact the valuation, performance and reputation of investments. An increasing number of appointed managers explicitly integrate ESG considerations into their research and portfolio construction processes. As an additional input into the manager research process, Morningstar leverages the research conducted by Morningstar’s fund manager research analysts, which includes an ESG scoring process.

Morningstar is committed to ensuring investors achieve their financial goals and believe that ESG considerations represent another important lens for assessing the risks and opportunities that can impact the long-term growth of a company and its fundamental value.

The Suncorp Funds also invest in internal Suncorp Group Trusts issued by Suncorp Funds Pty Ltd (**SFPL**). SFPL is the trustee of and is responsible for the Suncorp Group Trusts, including the selection and oversight of external investment managers. SFPL has adopted a Responsible Investment Policy, which sets out SFPL’s approach to ensuring the long-term sustainability of investment returns and the management of ESG risks and opportunities in the Suncorp Group Trusts. SFPL believes successful long-term investing is consistent with the allocation of capital to enterprises with sustainable business practices. SFPL believes long-term value creation is a result of the effective management of financial, physical and human capital and hence investment opportunities should be evaluated on their ongoing maintenance of:

- strong governance practices including alignment of interest
- strong human capital practices including labour practices, health and safety, and diversity
- strong social impact management including community engagement practices, and
- strong environmental impact management including climate change and natural resource scarcity.

SFPL has entered into an Investment Management Agreement with Suncorp Corporate Services Pty Ltd (“**SCS**”) for the management of the Suncorp Group Trusts. SCS operates the Suncorp Group Trusts under a multi-manager framework and appoints sub-investment managers. The extent to which managers integrate ESG practices into their investment management processes is a core component of the SCS manager selection process. Further, SCS requires certain responsible investment stock exclusions* of its appointed managers and they are also typically signatories to the UN Principles for Responsible Investment (“**Principles**”). The Principles provide a framework for investment professionals to include ESG factors into their investment decision making and ownership practices. The six Principles are:

1. Incorporate ESG issues into investment analysis and decision-making processes
2. Be active owners and incorporate ESG issues into ownership policies and practices
3. Seek appropriate disclosure on ESG issues from the entities invested in
4. Promote acceptance and implementation of the Principles within the investment industry
5. Work together to enhance the effectiveness in implementing the Principles
6. Report on activities and progress towards implementing the Principles

More information on the Principles can be found at www.unpri.org

The Trustee acknowledges ESG considerations can affect investment returns to varying degrees across companies, industry sectors, regions and asset classes over time. Further, excluding certain companies from the ‘investable stock universe’ can also positively or negatively affect returns when compared to an appropriate investment or market benchmark(s). The Trustee also acknowledges there can be inherent limitations for ESG integration when aligning the Suncorp Funds to certain investment structures (e.g. ETFs or co-mingled investment unit trusts), investment styles (e.g. passive type investments), availability or asset class complexities.

The Trustee acknowledges that an increasing number of Australians are taking a firmer stance with ESG matters regarding their retirement savings. Continued public demand for investments with high ESG standards as a major criterion for capital allocation will drive product and Index development which the Trustee supports. The Trustee will continue to monitor industry advancements to identify product improvements in the ESG area to enhance the Suncorp Funds offering for the best interests of members over time.

Further, the Trustee is committed to improving the approach to its implementation of ESG integration over time and as such its approach will remain flexible and continue to evolve. In particular, the Trustee will encourage any new mandated investment manager agreements to consider ESG risks in their investment decision making process with due consideration given to member costs and benefits.

Where to Find Assistance

For more information or assistance with this document contact:

- The Office of the Superannuation Trustee

4. Compliance with FSC Standard 20 – Superannuation Governance

In accordance with specific disclosure requirements of FSC Standard No.20, in developing and formulating our approach to ESG matters, we respond to the specific requirements of the Standard in the table below.

Question	Our response in formulating and implanting our ESG policy
1. How will the fund incorporate a consideration of ESG in the investment decisions that it makes?	The Trustee does explicitly consider certain ESG risks in the investment decisions within the Suncorp Funds. ESG considerations may be applied in the selection of sub-managers used in the vehicles in which the Suncorp Funds invest. ESG criteria may be applied in security selection decisions by managers (including sub-managers) of underlying investment vehicles.
2. How will the fund monitor the ESG exposure across its portfolio of investments?	The Trustee does not explicitly monitor the ESG exposures across the Suncorp Funds within which a member’s monies are invested. However, reporting is available to the Trustee that includes ESG scoring for its investment into the Suncorp Group Trusts, industry sectors or companies* that are excluded from the ‘investable stock universe’ and proxy voting summaries illustrating voting for and against management and shareholder proposals.
3. How will the fund act on ESG risks?	The Trustee seeks to obtain a proactive outcome with its investment partners Morningstar and SCS in relation to ESG risks within the Suncorp Funds that a member’s monies are invested. This includes excluding companies exposed to industry sectors, such as, controversial weapons (i.e. cluster munitions & landmines), tobacco, recreational cannabis, individual companies with significant or new exposure to the fossil fuels industry** or due to other responsible investment considerations (e.g. human rights violations). The Trustee will also seek accreditation with an independent and external agency for the Suncorp Multi-Manager Funds to endorse its responsible investment practices and approaches for its members.

4. How will the fund report to its members on the actions it has taken in relation to an ESG issue?	The Trustee does not plan to report ESG actions to members, however, any ESG risks issues arising from direct securities held within discrete mandates that are of a material nature will be notified to members on a case by case basis at the discretion of the Trustee.
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* Responsible investment stock (or securities) screening seeks to exclude companies that manufacture controversial weapons (e.g. cluster munitions & landmines), produce tobacco products and those that produce products that are detrimental to human health with no safe level of human use or consumption (e.g. recreational cannabis). Further, companies that have caused human rights violations, or those companies planning future extraction projects of fossil fuels (i.e. new or significant expansion) or new thermal coal electricity generation are also excluded. Suncorp Group has set an objective to act in a manner that supports an orderly transition to a net-zero carbon emissions economy by 2050. Further, Suncorp Gro up has identified companies where investment in those companies is inconsistent with that objective. It is Suncorp’s expectation with its underlying investment managers that these companies should not appear in investment portfolios unless there is an overwhelmingly compelling reason to do so and it can be demonstrated the company’s activities are consistent with the transition to a net-zero carbon emissions economy by 2050.

- ** Responsible investment principles are integrated into the portfolio construction. For fossil fuel stock (company) exclusions, the following guiding principles are utilised:
 - Suncorp will not directly invest in new thermal coal mining extraction projects, or new thermal coal electricity generation;
 - Suncorp will phase out of any direct investment in, thermal coal by 2025. This includes mining companies principally involved in the extraction of thermal coal, as well as electricity generation companies whose business is clearly inconsistent with the transition to a net-zero emissions economy by 2050;
 - Suncorp will not directly invest in companies involved in new oil & gas projects including the significant expansion of existing oil & gas assets;
 - Suncorp will continue to avoid any company involved in tar sands, or oil and gas exploration or production inside the arctic circle or the Great Australian Bight;
 - Suncorp will invest in companies whose business is clearly consistent with the transition to a net-zero carbon emissions economy by 2050; and
 - Suncorp recognises many companies are working constructively to be part of the transition to a net-zero carbon emissions economy. This includes electricity companies which are committed to transition away from coal -fired electricity generation and are materially investing in renewable and low-carbon energy generation and infrastructure.

5. Policy Review and Document History

A formal review of this policy will be undertaken by the Trustee at least annually and will be undertaken more frequently where required, to take into account new and/or changing legislative, regulatory or other relevant requirements.

Date	Comment	Version	Approval
17/8/2015	Creation of document.	v1.0	Investment Committee
16/8/2016	Name change of Ibbotson Associates to Morningstar Investment Management Australia Limited	v2.0	Investment Committee
19/9/2017	Inserted reference to Suncorp Corporate Services Pty Ltd and the SFPL’s adoption of a Responsible Investment Policy.	v3.0	SPSL Board
18/9/2018	Inclusion of direct securities permitted to be held by the Suncorp Lifestage Fund via discrete mandates with Morningstar Investment Management Australia Limited	V4.0	SPSL Board
19/11/2019	Various updates for the application, ESG Approach and Compliance with FSC Standard 20 sections of the policy.	V5.0	SPSL Board

17/08/2020	Various updates for the application, ESG Application, Approach and Compliance with FSC Standard 20 sections of the policy.	V6.0	SPSL Board
24/09/2020	Updates made to section 4.0 providing more detail regarding stock exclusion rationale and principles.	V7.0	SPSL Board