

Cbus Policy

Environmental, Social and Governance (ESG) Policy



Construction & Building Industry Super

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General advice warning

This information is about Cbus. It doesn't take into account your specific needs, so you should look at your own financial position, objectives and requirements before making any financial decisions. Read the relevant Cbus Product Disclosure Statement to decide whether Cbus is right for you. Call Cbus on **1300 361 784** or visit www.cbussuper.com.au for a copy.

The information in this document forms part of the following Product Disclosure Statements:

- *Cbus Industry Super Product Disclosure Statement* issued 14 February 2017
- *Cbus Sole Trader Product Disclosure Statement* issued 31 August 2016
- *Cbus Personal Product Disclosure Statement* issued 31 August 2016

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01

Purpose and objectives of the Policy

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

The principal objective of the Policy is to ensure that 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 companies to promote better governance practices.

The Policy is set by the Investment Committee and reviewed annually, or more frequently if required.

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Definitions, and what is not covered by the Policy

Definitions:

ACSI – Australian Council of Superannuation Investors.

ESG – Environmental, Social and Governance.

Board – The trustee board of the United Super Pty Ltd.

Fund – Construction and Building Unions Superannuation Fund.

IC – The Trustee's Investment Committee.

IMG – The Fund's Investment Management Group.

Investment Manager – A corporation appointed to invest on behalf of the Fund.

RSE licensee law means:

- The *Superannuation Industry (Supervision) Act 1993*
- The *Superannuation Industry (Supervision) Regulations 1994*;
- Prudential standards;
- the Financial Sector (Collection of Data) Act 2001;
- the Financial Institutions Supervisory Levies Collection Act 1998; and
- the relevant provisions of the Corporations Act 2001.

Trustee – United Super Pty Ltd.

PRI – The United Nations supported Principles for Responsible Investment.

What is not covered by this policy:

This Policy does not preclude the Fund from making particular investments on ethical grounds. Rather, it directs the Fund to integrate ESG considerations into its investment processes and requires ESG issues to be included in the valuation process of investment opportunities.

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Applications

This Policy applies to all Trustee Directors, all Fund Executive Managers and all members of the Fund's internal investment team.

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Responsibilities and accountability

The Trustee is at all times responsible for the Fund's investments.

The Trustee has delegated responsibility for ESG matters to its Investment Committee and the Investment Committee has further delegated responsibility for corporate governance voting to the Fund's Investment Management Group.

The primary objective for the Fund is to ensure that all investments are managed in the best interests of the Fund's members.

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Governing Legislation and Regulatory Requirements

Apart from some limited requirement around disclosure¹, the RSE licensee law does not set minimum standards or provide guidance on ESG issues. In constructing this Policy the Trustee has considered (among other things) the following:

- The ACSI Governance Guidelines; and
- The PRI.

1. See, for example, Corporations Regulations, Reg. 7.9.14C.

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What is ESG?

ESG is an acronym for Environmental, Social and Governance. The Fund believes that these are material investment issues and should be considered as part of the investment process. ESG covers a broad range of factors, examples of which are shown below:

Environmental

- Climate change and its potential impacts on investments. These may include exposure to carbon pricing and regulation to reduce carbon emissions, exposure to the physical impacts of climate change such as potential sea-level rises and increased frequency and intensity of severe weather events.
- The availability or over supply of water, and competition for the use of water.
- Pollution and disposal of waste products.
- The impact that a company and its operations have on the local environment.
- Future liability risk, such as may arise from disposal or spillage of toxic substances, or from contamination of areas or populations.

Social

- The effectiveness of a company in maintaining its 'licence to operate' – in other words how well a company manages its relationship with the community and civil society.
- A company's effectiveness in constructively managing labour relations with its workforce.
- The extent to which a company effectively manages and provides transparency on the safety of its workforce.
- Adherence to international conventions (such as those specified by the International Labour Organisation, the UN Declaration of Human Rights, and the OECD Guidelines for Multinationals).
- Effective management of supply chains, particularly for companies with significant offshore sourcing.
- Workforce diversity, including gender diversity at senior levels within companies and on boards.

Governance

- The structure and composition of the board of directors, including an adequate number of directors who are independent from management, and the fitness and propriety of directors.
- The structure and quantum of remuneration for directors and executives.
- The provision of adequate transparency about the company's operations, and a governance structure that demonstrates appropriate accountabilities.
- The attitude and actions taken by a company to ensure that its officers are not involved in bribery or corrupt practices.

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Why is ESG important?

ESG factors are important because the Trustee believes that an investee company's approach to managing ESG issues has a meaningful impact on the company's long term viability and success. That is, companies that act in a responsible way are likely to perform better over the long term.

Furthermore, the Trustee believes that including ESG issues in its investment process is consistent with its objectives as a long term investor and also its fiduciary duties and responsibilities to members.

The Fund incorporates ESG issues alongside more traditional investment factors when making investment decisions. The Trustee takes its responsibilities on ESG matters seriously and actively supports a number of collaborations on ESG initiatives, including being:

- A member of the Australian Council for Superannuation Investors (ACSI);
- A signatory to the Principles for Responsible Investment (PRI);
- A member of the Investor Group on Climate Change, which assists the Fund to understand the challenges and opportunities that climate change poses for investors;
- A member of the Asian Corporate Governance Association.
- A member of the International Corporate Governance Network.
- A member of Responsible Investment Association of Australasia (RIAA).

Exclusions

The integration of ESG in the investment process does not mean the exclusion of particular companies on ethical grounds. Rather, integration of ESG requires that the impact of ESG issues on the value of a company is included in the valuation process. Cbus' ESG investment approach has generally not been to exclude particular companies or sectors, but rather to use engagement and proxy voting to influence the behaviour of companies in which we invest.

However, there are some circumstances in which it is appropriate to consider exclusions of a sector or a specific stock. These circumstances include: if the Trustee considers that an investment is inappropriate for the Fund to the extent that it may have a negative impact on the reputation of the Fund; if the investment would lead to contravention of international treaties or conventions; or in cases where it is deemed not possible to influence a company through engagement or proxy voting.

Cbus currently excludes a number of companies from its investment portfolio, within the listed equity mandates, on grounds it considers the investment would be inappropriate for the Fund or where the companies are considered to have particularly poor ESG performance (for example, companies involved in the manufacture of controversial weapons, tobacco products, and companies classified as Red Flag companies under the MSCI Impact Monitor research product).

The Fund is a foundation member of the Australian Council of Superannuation Investors (ACSI) and the Fund's Executive Manager, Investment Management is the Deputy President of ACSI. The Fund is an active participant in ACSI's research programs and the review of the ACSI Corporate Governance Guidelines that takes place every second year.

Membership of ACSI provides the Fund with:

- Independent research and advice on the ESG risk of companies;
- Advice on the ESG practices of companies;
- A forum to engage with companies to improve governance practices;
- Proxy voting services and advice on proxy voting for annual general meetings for Australian listed equities included in the ASX300; and

- A set of comprehensive corporate governance guidelines, which the Fund adopts.

Further details about ACSI and the ACSI guidelines are available on its website, www.acsi.org.au.

The Fund signed the Principles for Responsible Investment (PRI) in 2006 and the Fund's Chief Executive Officer previously held the positions of member of the PRI Advisory Council and the PRI Board.

The PRI is a set of six aspirational principles designed to encourage and assist investors integrate ESG into their investment processes.

The principles are:

1. We will incorporate ESG issues into investment analysis and decision-making processes;
2. We will be active owners and incorporate ESG issues into our ownership policies and practices;
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest;
4. We will promote acceptance and implementation of the Principles within the investment industry;
5. We will work together to enhance our effectiveness in implementing the Principles; and
6. We will each report on our activities and progress towards implementing the Principles.

PRI Collaborations

The PRI offers a platform for collaborative engagement initiatives. It provides PRI signatories with a private forum to pool resources, share information, enhance influence and engage with companies, stakeholders, policymakers and other participants in the investment value chain on environmental, social and corporate governance (ESG) issues across different sectors and regions.

The Fund may contribute to a clearinghouse initiative from time to time.

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Implementation of ESG

The Fund is a substantial investor in Australian and International companies, infrastructure and property assets and believes it has an obligation to use its influence to encourage the management of investee companies and assets to act in an appropriate manner and to advocate good governance practices. To do this, the Fund considers how it actively votes on the shares it holds in ASX300 listed companies. For international holdings this is achieved through proxy advisors and with investment managers. The

Fund also engages with companies and management of unlisted assets to discuss their policies and performance on ESG matters.

In addition, the Fund actively encourages, engages with and monitors its investment managers in the integration of ESG issues into their processes and, all else being the same, will prefer investment managers that demonstrate sound ESG practices.

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ESG in Unlisted Assets

12.1 ESG in Property

As the Fund primarily services members either working or who have worked in the building and construction industry, the Trustee has a particular focus on ESG issues within that industry. This focus includes, but is not limited to, the items listed below.

Sustainable Building

The Trustee believes that focusing on green and sustainable buildings within the Fund's property portfolio will lead to stronger investment returns. The Fund therefore seeks to play a leadership role in the development of sustainable building practices in Australia. This means that the Fund:

- Supports the development of sustainable buildings within its property portfolio (including Cbus Property as well as other property managers) where consistent with maximising member retirement benefits;
- Engages in industry forums on sustainable building; and
- Undertakes policy advocacy on sustainable building issues.

Workplace Safety

The Trustee believes that the safety of workers in performing their jobs is a high priority. In particular the Trustee seeks to ensure that its property and infrastructure investment managers have appropriate policies that are applied to monitor the safety performance of property development and infrastructure construction within the Cbus investment portfolio to ensure achievement of high standards of workplace safety.

12.2 ESG in Infrastructure

The Fund invests in infrastructure in Australia and overseas. The majority of the Funds' investment is currently via pooled funds. In addition, the Fund selectively considers co-investments in infrastructure assets alongside its pooled funds. The key considerations for ESG in infrastructure are listed below.

Asset Management

External managers and the boards of assets in which the Fund invests (through pooled funds or co-investments) will be expected to have due regard for ESG issues, including the adherence to all relevant law and regulations, in the management of the assets. External managers will be expected to report immediately to the Fund should any major ESG matters develop at any of the infrastructure assets.

As an asset owner, the Fund believes that it has an obligation to seek to ensure that the companies it invests in are directed and controlled by boards of directors and senior executives in an appropriate way that will enhance performance over the longer term, and thereby produce the best financial outcome for members. For this reason, the Fund takes an active interest in the environmental, social and governance practices of the listed companies in which it invests.

The Trustee's view is that the role of the board of directors of a listed company is important because the board is the representative of the shareholders. Therefore, the effective functioning of the board is paramount. To this end, the Fund generally supports boards that have a majority of independent directors, and that contain a diversity of experience and skills appropriate to the business.

Investment Managers

The Fund's Australian equities portfolio is managed by a number of external investment managers. As part of the operations performed by the investment managers, corporate governance is an area that is considered integral to the investment process. The Fund expects its investment managers to actively consider their position on company resolutions put to Annual General Meetings and to advise the Fund in circumstances where the investment manager believes it is appropriate to vote against a company resolution.

The Fund expects that, depending on the style employed by the investment manager, most investment managers will from time-to-time engage with companies on environmental, social and governance issues.

Custodian

The Fund's directly held shares are held by the Fund's custodian. The custodian is required to provide timely advice to the Fund's investment managers on upcoming company meetings and resolutions.

The custodian also provides regular notification to the Fund of upcoming company meetings, the shares held by The Fund in those companies and the relevant investment managers.

The Fund's custodian votes on all company resolutions in accordance with the investment manager directions, or as directed by the Fund should it provide notification that an alternative position is to be adopted.

13.1 Voting on Australian Equities

The Fund actively considers how it will vote at company meetings for the ASX300. The process is as follows:

- Where voting is not contentious (defined as cases where both ACSI and the investment manager(s) support a company sponsored resolution), the Fund votes in favour of the resolution.
- Where voting is contentious (defined as cases where either ACSI or the investment manager(s) does not support a company sponsored resolution), the IMG (or a sub committee of the IMG) will consider each resolution on a case by case basis. Inputs to the decision-making process will include ACSI's proxy voting advice and the view(s) of the investment manager(s). The following considerations will apply:
 - The Fund supports the ACSI Guidelines and has input into their development, and the weight accorded to ACSI's advice reflects this.

- In cases where the investment manager(s) provides compelling rationale for a contrary view to that provided by ACSI, the Fund may vote according to the investment manager(s) advice.
- On issues that are particularly contentious and where ACSI's advice differs to the views of the investment manager(s), the Fund will discuss the issue with both ACSI and the investment manager.

- Where voting concerns the election of directors and ACSI recommends voting against a director due to board composition (i.e. there is not a majority of independent directors on the board), the Fund will seek the views of the investment manager(s) on the resolution. This reflects the fact that while the Fund supports the principle that boards should comprise a majority of independent directors, it is also acknowledged that there may be occasions where the company will benefit from the re-election of a particular director. In such cases, the Fund may vote contrary to ACSI's advice if the investment manager(s) provides compelling reasons for doing so.
- Where a resolution is proposed by a shareholder, or group of shareholders, and is not supported by the company, the IMG (or a sub committee of the IMG) will consider ACSI's advice and the views of the investment manager(s) to determine how the Fund will vote.

13.2 Engagement with Australian Investee Companies

The Fund believes that a constructive dialogue with the listed companies in which it invests will usually lead to the best outcome for members. To this end, the Fund works with and supports the approach taken by ACSI in its corporate engagement program. The Fund attends meetings with large listed companies alongside ACSI.

From time to time the Fund may engage directly with the board of listed companies at the request of the company or should contentious issues arise. All such matters will be approved by the IMG and reported to the Investment Committee.

13.3 Voting on International Equities

The Fund subscribes to a proxy voting service provided by Glass Lewis. This service is generally applied to the Fund's active international equities mandates in developed markets. Other international shareholdings are voted by the investment managers.

The Fund expects the international equities investment managers who hold voting responsibility to:

- Exercise their voting responsibility actively; and
- Report to the Fund on voting activity on the portfolio every six months.

The Fund may from time to time support the work of other like-minded investors, via ACSI and/or the Principles of Responsible Investment, in conducting company engagement with international companies.

13.4 Engagement with International Investee Companies

Engagement with companies that are held within the international equities portfolio is primarily conducted by the Fund's investment managers. In addition, the Fund may from time-to-time participate in joint engagement in conjunction with the PRI, the Asian Corporate Governance Network and other collaborative investor initiatives.

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Securities Lending

The Fund's security lending program is conducted by the Fund's custodian, in which the custodian is permitted to borrow domestic and international fixed interest securities and equities from the Fund.

If a share from the Australian share portfolio is on loan during a period in which the Fund wish to exercise a vote, the Fund will instruct the custodian to recall the stock from loan if the vote is likely to be contentious to ensure that the security lending program does not prevent the Fund from exercising its voting rights as a shareholder.

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Climate Change

The majority of scientific opinion supports the view that the climate is warming and that the warming is being caused by significant increases in the levels of carbon dioxide (CO₂) in the atmosphere and that the increased levels of CO₂ causing the warming are a result of human activity.

It is a complex environmental and social issue that will increasingly impact the global economy over time.

Parties to the United Nations Framework Convention on Climate Change (UNFCCC) adopted the Paris Agreement in December 2015. It is a global framework that supports global warming and emissions reduction goals and recognises both government policy actions and global investment

are required for structural economic change. This will help drive the transition required to limit global warming below two degrees Celsius and move towards net zero emissions by 2050.

From an investment perspective, global warming will lead to both risks and opportunities. The Fund has developed a Position Statement to help guide the integration of climate change considerations within the broader investment framework. This approach will enable the Fund to focus on making decisions that will lead to better long term retirement outcomes for members.

The Climate Change Position Statement has been reviewed and approved by the Cbus Trustee Board in August 2016.

The Fund will also continue its work through its membership of the Investor Group on Climate Change (IGCC), investment managers and investee companies to encourage them in their incorporation of climate change risk and opportunity.

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Reporting and Disclosure

The Trustee aims to be clear and transparent on the Fund's ESG activities and makes publically available on the Fund's website the following information:

- A copy of this Policy; and
- A report of all proxy voting activity, which is updated every six months.

ESG activity and proxy voting actions are reported to the Investment Committee via the Investment and Governance Report prepared by the Executive Manager, Investment Management.

A summary of all the Fund's proxy voting actions is maintained internally, including the name of the company, the meeting date, the nature of the resolutions, how the Fund voted, and the overall outcome of the vote.

The Trustee will also disclose certain information in relation to its proxy voting actions in circumstances required by the Corporations Act.

Litigation Policy

The purpose of this policy is to set out the Fund's general approach for participating in legal proceedings against investee companies, the principal objective of which is to protect the value of the Fund's investment with those companies and, hence, members' benefits.

As a general rule, the Fund will only participate in such legal proceedings where:

- Other forms of advocacy and engagement have failed; and/or
- The Fund believes there has been a breach of law and that the breach led to a financial loss for the Fund; and
- The financial benefits of the legal proceedings are expected to outweigh the costs.

Any proceeds of such legal proceedings will be allocated to the Fund at the time they are received.

Class Actions

A class action is a legal proceeding against a company by a group of investors with a common interest, or a regulator. It allows shareholders who consider they have been financially disadvantaged as a result of a company undertaking misleading and deceptive conduct to recover some of their losses in a cost-effective manner. It also can have the secondary effect of improving general governance standards in the market.

As a general rule, the Fund will participate in class actions as a passive class member across all US and Australian actions. For Australian class actions the Fund prefers to participate if a litigation funder is in place.

The Fund will consider being an active class member (i.e. a lead or co-lead plaintiff) if certain conditions apply.

Private Action

The Fund will consider private litigations on a case by case basis.

Reporting

The internal investment team will maintain a record of all class actions that the Fund participates in, and will report this to the Investment Committee.