

BTFG MySuper Environmental Social and Governance Policy

Effective 21 September 2017

1. Purpose

This Policy sets out how the BT Financial Group ('BTFG') Registrable Superannuation Entity (RSE) Licensees' of BT Funds Management Limited ('BTFM') and Westpac Securities Administration Limited ('WSAL') (each a trustee) integrate environmental, social and governance ('ESG') principles into investment analysis and decision-making concerning investments specifically for in the BTFG MySuper products.

This policy is limited in its application to default funds for the purposes of the superannuation guarantee charge choice of fund rules (including a MySuper product). In this policy, any reference to 'BT' is to be taken to include the Trustees, and any reference to 'fund/funds' is to be taken to include the BTFG MySuper product suite.

2. Legislative requirements

As a member of the Financial Services Council ('FSC'), this policy is part of BTFG's commitment to promote strong corporate governance for trustees of an RSE.

The FSC Standard No. 20: Superannuation Governance Policy is applicable to FSC members, with full compliance mandatory since 1 July 2014. Part of this standard 'requires a relevant licensee to develop and implement (and disclose to RSE Members) in relation to each RSE it operates, an ESG risk management policy'.

Additionally, Superannuation Prudential Standard (SPS) 530 Investment Governance sets out that RSE licensee should 'implement a sound investment governance framework and to manage investments in a manner consistent with the interests of beneficiaries'. In conjunction with this Standard, the Superannuation Prudential Practice Guide (SPG) 530 specifically acknowledges environmental, social and governance issues.

This policy forms part of the wider suite of risk-specific frameworks which support BTFG in managing ESG factors and is an integral part of the Westpac Group ('Westpac') risk management strategy.

3. Definition of ESG

The term 'ESG' refers to consideration of environmental, social and corporate governance factors within the investment process and the activities undertaken to protect or enhance value by taking a broader, more comprehensive approach to investment analysis, decision-making and engagement. It includes consideration of material environmental, social and governance risks and opportunities, and an appraisal of the investment activity of the funds with appropriate consideration to the alignment of investment activity to the long term performance goals of the funds.

ESG is made up of three separate but interconnected components, being, environmental, social and governance considerations. Guidance as to the broad nature of some of these issues is provided below:

Typical ESG Factors		
Environmental	Social	Governance
Air and water pollution	Diversity and equal opportunities	Anti-competitive behaviour
Biodiversity	Employee engagement	Audit committee structure
Climate Change	Government and community engagement	Board composition
Deforestation	Human rights	Bribery and corruption
Energy efficiency	Indigenous rights	Compliance
Waste management	Labour standards	Executive remuneration
Water scarcity	Product safety and liability	Stakeholder dialogue

4. ESG Investment Principals

BTFG is a signatory to the Principles of Responsible Investment ('PRI'), a set of voluntary actions for incorporating environmental, social and corporate governance issues into mainstream analysis, investment decision-making and ownership practices. The Principles are available at; www.unpri.org.

In exercising its fiduciary duty, BT considers its role to be a steward, universal owner and long term investor on behalf of beneficiaries. BT believes that ESG factors can have material impacts to risk and returns and such factors should be considered in portfolio construction, the execution of ownership rights and engagement with companies.

BT believes that ESG issues can affect the performance of investment portfolios in varying degrees across companies, sectors, regions, asset classes and over time. BT also recognises that by applying the principles underpinning consideration of ESG factors, there may be a better alignment between investor outcomes and the broader objectives of society.

In line with its commitment to the PRI and where consistent with our fiduciary responsibilities:

- BT will incorporate ESG issues into investment analysis and decision-making processes;
- BT will be active owners and incorporate ESG issues into our ownership policies and practices;
- BT will seek appropriate disclosure on ESG issues by the entities in which we invest;
- BT will promote acceptance and implementation of the ESG principles within the investment industry;

- BT will work together to enhance our effectiveness in implementing ESG principles; and
- BT will report on our activities and progress towards implementing ESG principles.

5. Approach to Managing ESG risk in BT MySuper

BT has an objective to maximise the investment return of MySuper within the defined objectives and strategy while managing risk. Included in the management of risk is the investment approach to ESG. BT believes that managing ESG risk appropriately, will contribute to achieving objectives over the long term.

In managing ESG risk, the BT MySuper ESG investment approach is generally not to exclude particular companies or industries, but rather to use engagement and proxy voting to influence the behaviour of companies. In addition, a selection criteria will be followed in the appointment of Fund managers.

In very limited circumstances it may be appropriate to consider exclusions of an activity or a specific security for Australian and international equities based on involvement in certain activities.

The following sections outlines in more detail how ESG risk is managed.

6. Fund Manager Considerations

The below criteria should be observed regarding Fund Managers.

6.1 Fund Manager Selection

When selecting fund managers to provide MySuper investment management services, a rigorous selection process is undertaken. As part of that selection process prospective fund managers are required to provide detail on how they intend to integrate ESG factors into their investment processes in alignment with the expectations of this policy.

Key aspects of selection processes include, but are not limited to, a manager demonstrating:

- Consideration of ESG factors in addition to the other variables in the investment process to enhance the ability to meet long-term performance objectives, across companies, sectors, regions, asset classes and over time;
- Incorporation of ESG within an investment process;
- That ESG focused thematic and other processes which consider longer term investment opportunities or risks which are consistent with enhancing the portfolio's ability to meet long term objectives are regarded in the investment construct over time;
- How environmental and social assessment considers the extent to which a company exhibits appropriate strategic recognition, board oversight, policies and systems to manage the company's material environmental and social issues; and
- How the manager exercises ownership rights through proxy voting and engagement activities consistent within a universal ownership position.

6.2 Expectations of Fund Managers

Fund managers are expected to have appropriate procedures in place which take into consideration ESG matters and act on material ESG factors in their investment processes including in the selection of underlying investment managers, appointment and monitoring processes.

6.3 Fund Manager monitoring

Fund managers are expected to demonstrate understanding and management of material ESG factors across their portfolios of investments and report back to BTFG on a regular basis, including reporting ESG trends across sectors within fund managers' portfolios.

7. Collaborative Engagement

BT undertakes engagement at a number of levels:

1. Firstly at a policy level; engaging with policy makers and participating in the work of industry bodies and collaborative investor initiatives to promote high industry standards and robust investment markets;
2. Through specialist engagement service providers who operate on behalf of BTFG according to an agreed engagement agenda with listed companies; and
3. With fund managers; to promote good practices on active ownership and ESG consistent with their size, resources, market position, location, investment philosophy and style.

8. Proxy Voting

Fund managers are expected to undertake active ownership role in the companies in which they have shareholdings through voting, engagement and, where appropriate, policy dialogue.

Guidance on Proxy Voting can be obtained by referring to the BTFG Superannuation Proxy Voting Policy (2016 version).

<https://www.bt.com.au/about-bt/bt-financial-group/additional-disclosure.html>

9. Exclusions

In very limited circumstances it is appropriate to consider exclusions of an activity or a specific security where:

- The investment or activity is unlawful in the relevant jurisdiction; or
- the investment or activity would lead to a contravention of international treaties or conventions ratified by Australia; or
- is a severe breach of accepted business standards, and

where it is deemed not feasible to influence a company through engagement or proxy voting.

Prior to the implementation of an exclusion, due consideration will be given to its impact on the funds.

The approach does not facilitate an exclusion of particular industries or companies on ethical or moral grounds.

Based on the above, BT currently excludes a number of industries and companies from its investment portfolio, within listed equity mandates.

10. Reporting and Disclosure

As part of this policy, BTFG undertakes and commits to:

1. Fulfil its reporting obligations under the PRI. Reports are available at <http://www.unpri.org>; and
2. Disclosing active ownership activities (voting, engagement, and/or policy dialogue).