ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG) INVESTMENT AND PROXY VOTING POLICY

Revision History

VERSION	DATE	APPROVAL BY
1	November 2008	Board of Directors
2	September 2010	Board of Directors
3	May 2012	Board of Directors
4	March 2013	Board of Directors
5	June 2015	Board of Directors
6	April 2017	Board of Directors

1. PURPOSE

This Environmental, Social & Governance Investment and Proxy Voting Policy ("ESG Policy") defines Statewide's commitment to responsible investing detailing the approach that Statewide aims to follow in managing the ESG aspects of its investments.

This policy is supplementary to the Statewide Investment Policy Statement.

2. RESPONSIBILITY AND ACCOUNTABILITY

Accountability for this ESG Policy lies with the Chief Investment Officer.

3. POSITION ON ESG INVESTMENT

Statewide has an objective to ensure that sustainability principles and practices govern the way it carries on its business and the investing of members' retirement savings. The Trustee believes that focussing on ESG considerations as part of the investment process can reduce investment risk. For this reason, Statewide is a signatory to the United Nations Principles for Responsible Investing (UNPRI).

The Trustee considers the ESG performance of assets in which the fund invests to be relevant to the performance of the entire Fund – across all asset classes, sectors, markets and through time.

3.1 Materiality of ESG factors

Statewide's objective is to provide its members with the best level of income in retirement through two phases; wealth accumulation and wealth draw down. As a trustee, Statewide assesses and manages all foreseeable risks. Statewide considers environmental, social and governance factors to be investment-related risks which may materially impact the financial performance and value of investments

3.2 Fiduciary duty to members

As Statewide works to incorporate ESG factors into its investment decision-making, the Trustee maintains its primary duties are to:

(a) deliver the highest possible return on its investments to its members; and

(b) assess and manage all foreseeable risk factors as effectively as possible.

The "Sole Purpose Test" arising from the Superannuation Industry (Supervision) Act 1993 ("SIS Act") requires a trustee to pursue activities relevant to the provision of retirement income to members. These legal requirements are expressed in reasonably broad terms.

The SIS Act imposes a set of key covenants on Trustees, including:

(a) to ensure the trustee's duties and powers are performed and exercised in the best interests of the beneficiaries; and

(b) to formulate and give effect to an investment strategy that has regard to the whole of the circumstances of the Fund, including (among other things) the risk involved in making, holding and realising, and the likely return from, the Fund's investments having regard to its investments and expected cash flow requirements.

Where the Trustee has analysed the overall costs, risk and return profile of an investment (which may include consideration of ESG risks), the Trustee expects that it will have properly discharged its legal obligations.

3.3 Long-term interests

Generally, superannuation funds must meet their obligations to members and beneficiaries over a long-period. It is therefore appropriate that Statewide takes a long-term investment approach to its investment decision-making.

In this context, a "long-term investment" approach is defined as one that addresses all material risks and which has a focus on protecting and enhancing investments, minimising risk and seeking positive returns over the long-term business cycle.

Since it seeks to most optimally protect and manage its investments over time Statewide recognises that ESG factors are especially relevant to its investment decision-making policies and processes.

3.4 Implications for investment approach

Statewide believes that a Trustee:

(a) should, either directly or through its service providers, take steps to understand the relevant ESG issues in assets and the assets' capabilities, systems and structures to manage these issues before they escalate into events that can threaten the value of the Trustees' investment; and

(b) will risk failing in its fiduciary responsibility if it disregards material ESG concerns that may affect the long-term value of its investments. It will follow up on these concerns and ensure it, or its Managers and other service providers, deal with them appropriately.

The Trustee also considers the integration of ESG information throughout the entire investment industry to be essential and therefore promotes integration of material issues into its investment decision-making by both internal and external investment professionals, managers, service providers and consultants.

3.5 Co-operating within the investment industry

Statewide believes that a collaborative approach to ESG within the investment industry is beneficial to creating synergy and increasing the impact of otherwise individual actions.

As a result, where collective action is beneficial to the outcomes of Statewide's position on ESG, Statewide is committed to engaging with outside institutions and frameworks.

Statewide will continue to review all appropriate collaborative initiatives to determine which are the most relevant and effective in contributing to the implementation of this ESG Policy and encourage its investment managers, service providers and asset consultants to do likewise.

3.6 United Nations Principles for Responsible Investment (UNPRI)

Statewide is a signatory to the UNPRI; a collective international framework for institutional investors to integrate ESG considerations into their investment decision-making. Statewide is working progressively towards implementing the six principles, which are incorporated into the Investment Policy Statement, and are as follows:

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

4. IMPLEMENTATION STRATEGY

Statewide recognises that to offer a “sustainable” super fund to members is an ongoing commitment which will constantly challenge how the Fund operates and invests.

This implementation strategy forms a statement of intent to which Statewide is committed. Statewide recognises that ESG issues do not discriminate between different types of assets. As a result, an effective policy must recognise that ESG issues are not constrained to listed equities.

Since Statewide invests across many asset classes and via various investment structures, it is necessary to briefly outline an implementation strategy for each possible investment vehicle.

4.1 External investment managers

Statewide appoints external investment managers to invest on its behalf. As part of its investment mandate, each external investment manager is required to monitor ESG issues that are reasoned to be material to the Fund’s investments. From time to time, this may include specific ESG issues at Statewide’s request.

As part of that requirement, each external investment manager is required to:

a. Provide details of their investment management policies and procedures in relation to ESG issues;

b. Report at agreed intervals to Statewide about:
   i. Its ESG activities, including research, voting and engagement;
   ii. Detailed explanation as to how it integrates ESG issues into its investment decision-making and analysis;
   iii. The extent to which, if any, it has voted its proxies on Statewide’s behalf;
   iv. Detail as to how it exercised its voting rights on these issues and any reasonable reasons for its decision.

Statewide encourages each external investment manager to regularly communicate with the operator of the underlying asset as a key part of its ongoing research, analysis and evaluation process. However, Statewide reserves the right to engage independently from the investment manager with investee boards and management on ESG issues.

Each external investment manager will advise Statewide how it intends to progress ESG issues. Statewide will monitor how each of its investment managers are managing these issues to ensure that the best financial interest of Fund members are advanced. Each of the external investment managers will report to Statewide on any outcomes arising from its engagement with assets.

If Statewide identifies an ESG issue for a particular asset or investment as a controversial issue, Statewide will consider how that issue impacts on the Fund's investments and will determine which options for action it may exercise. In determining an appropriate course of action, Statewide may obtain advice from any number of other outside parties, and either act independently or via the external investment manager at its instruction.

4.1.1 Passively Managed Vehicles

Statewide may, from time to time, invest in passively managed vehicles that take little to no account of qualitative assessment of ESG related risks.

In this case, Statewide will communicate with the investment managers and encourage them, where appropriate, to consider where ESG issues may be relevant to the analytics of the investments.

4.1.2 Pooled Super Trusts (PSTs)

Statewide invests in a number of pooled vehicles that have their own Trustee or Responsible Entity, which is responsible for decisions on behalf of all unit holders collectively.

Although adoption of sustainable investment policies and practices has in these cases been delegated to the vehicle's own investment manager, ultimate responsibility rests with Statewide for upholding Statewide's sustainable investment principles in relation to its share of the vehicle.

As such, via our asset consultant, Statewide will monitor any material issue that arises within a pooled investment which conflicts with Statewide's sustainable investment principles.

4.1.3 Unlisted investments

Statewide also invests in unlisted assets, either directly or through private equity vehicles.

Statewide will adopt an approach similar to (3.3) above, which will require its asset consultant to uphold Statewide's sustainable investment principles on its behalf and to incorporate ESG assessment of investments in the due diligence process.

Statewide will monitor the performance of its asset consultants and will request that they report on the ESG performance of assets invested and as part of their recommendations.

In relation to direct investments, Statewide will vote on every matter that is put forward by resolution, or where an issue arises that concerns Statewide's interests, the Trustee will request that the company's Board puts the matter to a vote. The Trustee shall be entitled to seek assistance in casting its vote, in any circumstances where it judges this to be necessary or desirable.

5. STATEMENT ON PROXY VOTING

The Trustee believes that its investment responsibility extends to the governance of companies in which Statewide invests and that long-term shareholder interests are best served by Active Ownership including voting shares wherever possible. Equities usually carry voting rights and Trustees have an obligation to ensure that votes are cast in a way that is likely to benefit beneficiaries over the long term.

In selecting listed equity Managers, Statewide considers the proxy voting mechanisms of each candidate manager. In general, Statewide requires its Managers to vote and will give its Managers authority to vote in accordance with their own proxy voting policies.

In the case of mandated Managers for listed equities, Statewide has chosen to exercise its voting rights via those Managers and delegates this responsibility to them on the basis that voting will occur in all possible cases. For pooled investments voting responsibility automatically rests with Managers.

There are circumstances where voting is not possible and in such situations Statewide requires its Managers to report on the reasons for not voting. Managers may or may not utilise proxy voting advisers, at their discretion.

Statewide understands that, in delegating its voting responsibility to multiple Managers, in accordance with their own policies, that there may be circumstances when voting by those Managers conflicts for a particular company. Statewide has carefully considered this possibility and considers it acceptable for the reason that different Managers may view different assets in alternative ways depending on their investment style and their particular knowledge of an asset, i.e. Managers' investment styles may dictate their voting decisions.

We believe Managers are best placed to carry out voting responsibilities however Statewide reserves its right to direct any Manager to vote in a particular way, in accordance with a resolution of the Trustee.

Proxy voting for unlisted shares is undertaken directly by Statewide.

The Trustee will request the provision of the following information from Managers as part of regular reporting arrangements:

- report on the extent to which, if at all, the Manager has voted on resolutions in respect of companies that form part of the investment portfolio;
- where the Manager has exercised its voting rights on governance issues, outline how it voted on the following contentious governance matters identified by the Trustee and the reasons for adopting its position:

  - Employee and/or director share plan/benefit packages that involve any material departure from normal practice or significant increases in remuneration benefits;
  - Appointment of executive directors where non-executive directors are in the minority on a company board;

  - Significant issues that are likely to be contentious, including but not limited to takeover defences, mergers and acquisitions and proposals to change the voting rights that restrict shareholder control over a company board; and
  - Resolutions not proposed by the company board but by shareholders in accordance with Corporations Law.

- Managers will also provide information, where available, in the following circumstances to the Trustee:

  - If the Manager did not exercise their vote/s, provide advice and reasons for that action;
  - Where the Manager voted against the company directors' recommendation and the outcome of the shareholders' vote;
  - Where the Manager resolved any issues by discussion prior to any shareholder general meeting;
  - Where the Manager voted in favour of the company directors' recommendation where more than 20% of the votes were cast in opposition;
  - Any modification to the Manager's policy and guidelines on governance; and
  - Where a material conflict exists in relation to the Manager as a consequence of the relationship between their parent company or subsidiary and the company under consideration.

Statewide will maintain dialogue with its Managers to facilitate implementation of this policy.

A report on voting activities will be provided to the Investment Committee and the Board at least annually.

This policy and specific information on proxy voting activity will be made available to members and the public as a minimum as prescribed by legislation.

5.1 Unlisted Asset Voting

The Trustee believes that its investment responsibility extends to the governance of companies in which Statewide invests and that long-term shareholder interests are best served by active ownership including voting shares wherever possible. Equities usually carry voting rights and Trustees have an obligation to ensure that votes are cast in a way that is likely to benefit beneficiaries over the long term.

Statewide seeks to vote on all possible occasions with the exception of instances where insufficient notice has been given by the investee company to make an informed decision or to return appropriate documents by the ballot closure date.

Voting decisions will be based on good governance principles and will be made in the best interests of the investee company at the time, taking into account all relevant factors.

A register will be maintained of share voting topics, decisions and any relevant notes explaining how the decision was arrived at, particularly in relation to Against votes or circumstances where no vote was placed.

6. SCREENED OPTIONS

Statewide considers ESG factors as investment-related risks across all asset classes, sectors and markets. However, since 2002, Statewide has chosen to offer members a dedicated Sustainable Diversified member investment choice. This option is managed by external investment managers and may exclude, from time to time, certain investments based on ethics, labour standards, environmental, social and governance considerations.

To meet the needs of purist sustainable investors and to support the financing of global emissions reduction and climate change abatement related investments, the Trustees may develop appropriate additional investment choices which will focus on positive investment screenings.

7. REPORTING ON PROGRESS

A key part of implementing this ESG Policy is to communicate progress over time. As such, Statewide undertakes to:

- Update members on key initiatives and progress via the Statewide website and annual reports
- Participate in appropriate industry surveys
- Participate in the reporting requirements of the United Nations Principles for Responsible Investment.

8. POLICY REVIEW

The Trustee will review this policy every two years from the date of adoption or at such time as the Trustee sees fit to revise its ESG policies and procedures.
