



Responsible Investment Policy

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1. Fund Objectives

The general objective of the Catholic Superannuation Fund (Catholic Super) is to provide its members with the best possible level of income in retirement.

The Fund recognises that there are a number of factors that will determine whether this objective is met, some of which are quite outside the control of the Fund. These factors outside the control of the Fund include the rate at which members contribute savings to the Fund, the time for which they are in the Fund, their level of income whilst working, and member decisions as to which of the Fund's options they invest their retirement savings in.

These constraints notwithstanding, the Fund views its mission and the way in which it can best contribute to its general objective, as being to provide its members with the best possible medium to long term risk adjusted returns for whatever option(s) they choose to invest in.

The achievement of this objective requires the Fund to focus its attention on a number of major factors, the most important of which are:

- Asset allocation;
- Portfolio structuring;
- Portfolio diversification;
- Investment manager selection; and
- Risk management.

As stated above, Catholic Super's primary focus is on optimising members' long term investment returns and, hence, retirement income. At the same time, the Fund believes that the welfare of members in retirement will be influenced by the environmental and social amenity of the world in which they live. Accordingly, all other things being equal, the Fund will be inclined to favour investments which contribute to positive environmental and social outcomes, and will be inclined to avoid investments which have the opposite impact.

2. Implications of the Fund's Objectives on its Investments

Catholic Super aims to maximize its risk adjusted returns when investing in high growth assets by tempering the risk of those assets through:

- Diversification across risk factors;
- Risk focused medium term asset allocation changes; and
- Astute manager selection.

In selecting its investments and investment managers, Catholic Super is mindful of the general risk characteristics of each asset class and of the investment styles or approaches of each of the managers that it appoints. In addition, prior to appointment it investigates the risk management features of each of its managers and actively monitors the performance characteristics of each manager, in part with the objective of determining whether any unexpected risks are being manifest.

However, the Fund is also aware that there are some risks and potential returns that its agents, in particular its investment managers, are unlikely to focus on. The Fund believes that this applies to all asset classes, including both active and passive mandates in listed and unlisted investments. This may be particularly so in the listed equity asset classes, where manager time horizons tend to be from one to three years and where portfolio turnover is relatively high.

In contrast to the portfolios of individual investment managers, Catholic Super is aware that, in the Australian share sector in particular, it is likely to have an exposure to virtually all major companies virtually all of the time.

As a consequence of being both a very long term investor and a near universal holder of Australian shares in particular, Catholic Super is very strongly of the view that it would not be fulfilling its fiduciary duty to its members if it did not seek to manage such long term risks and opportunities in order to maximize its prospective long term returns.

Such risks and opportunities largely fall into three categories:

- **Environmental** – There has been a major change in societal expectations over the past 30 years, such that environmental degradation is no longer accepted as an inevitable consequence of some industrial and mining practices. As such, enterprises that are either not aware of their environmental impacts, or are aware and fail to manage them, can pose a significant long term investment risk. More recently, recognition of the threat posed by climate change has very substantially broadened the range of enterprises that could be subject to environmental risk. Catholic Super is strongly of the view that these exposures to risk must be managed.
- **Social** – Issues to do with labour market practices, occupational health and safety and product liability can pose very substantial investment risks.
- **Governance** – Catholic Super is of the view that governance risks are a major long term threat to investor value. These risks can be present, not just in equity assets, but in nearly all asset classes including corporate debt, property and infrastructure investments. Conversely, Catholic Super is of the view that, all other things being equal, good governance will tend to be rewarded over the longer term.

Catholic Super accepts the conventional short hand for these factors as “ESG”.

Besides the broad definitions offered above, Catholic Super defines ESG factors as having one or more of the following characteristics:

- Are the focus of public concern;
- Have a medium to long-term horizon;
- Are qualitative and are not readily quantifiable in monetary terms;
- Reflect externalities not well captured by market mechanisms;
- Are often the focus of a tightening policy and regulatory framework; and
- Can arise throughout a company’s supply chain as well as in the production process and in marketing and eventual use of the goods and services produced by the company.

Catholic Super is strongly of the view that responsible corporate behaviour with respect to ESG factors will act to reduce investment risk and can generally have a positive influence on long-term corporate performance.

In this regard Catholic Super believes that:

- Disclosure should be a key focus that allows investors to better understand, evaluate and assess potential risk and return, including the potential impact of ESG factors on an entity’s performance;
- Investment analysis should evaluate ESG factors in terms of their potential impact on risk and return across asset classes;
- Engagement with companies should be a core part of the investment process to improve standards of disclosure and industry best practice to pro-actively manage ESG risks and opportunities that may arise across different sectors and regions;
- Asset owners should engage with investment managers, consultants and other agents along the investment chain such that processes are in place and that capabilities exist to ensure that ESG risks and opportunities have been integrated.

As a long term investor and near universal owner of Australian shares, Catholic Super also believes that it can enhance members’ interests by contributing to the effective operation of financial markets, quite apart from risks and opportunities arising from specific ESG issues.

Catholic Super believes that markets are generally focussed on a time horizon which is much shorter than it should be, and that this results in inefficient allocation of capital at the overall market level as well as excessive costs in management of institutional investment portfolios. Catholic Super will seek to ensure that its own behaviour does not reinforce this short term focus. The Fund will also seek where possible to have a positive influence on overall market behaviour.

Catholic Super does not believe that screening investments to exclude those that fail some measure of ethical, responsible, sustainable or other non-financial criteria is a successful methodology for either managing the risks that are discussed above or of bringing about a general change in corporate behaviour to reduce these risks. Rather, it is the view of the Fund that screening our investments reduces the investment opportunity set which will most likely

result in lower returns and/or higher levels of risk. Catholic Super favours integration of ESG factors into investment analysis with a view to pro-actively managing risks and capturing opportunities as well as engagement with investee companies and with investment agents to raise industry standards.

This can be achieved both in terms of the Fund's own activities as well as through collaboration with other Funds and industry agents along the investment chain.

3. Policy on Responsible Investment

Catholic Super believes that the incorporation of ESG factors into our investment decision making framework is an essential component in meeting the Fund's fiduciary obligations to its members. In keeping with recent industry developments, in particular the United Nations Principles for Responsible Investment ("UNPRI"), the Fund has decided to call this process of incorporating ESG factors into its investment process 'Responsible Investment'.

The broad components of Catholic Super's Responsible Investment Policy are described below within the framework provided by the UNPRI:

1. Wherever practicable, we will seek to incorporate ESG issues into investment analysis and decision-making processes.

This includes the following:

- We will address ESG issues in the Fund's investment policy statements;
- We will support the development of ESG-related tools, metrics, and analyses;
- We will seek to assess the capabilities of external investment managers to incorporate ESG issues;
- We will ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis; and
- We will encourage academic and other research on this theme.

2. We will be active owners and incorporate ESG issues into our ownership policies and practices.

This includes the following:

- We will develop and disclose an active ownership policy with respect to the entities in which we invest;
- We will exercise the Fund's voting rights and seek to monitor managers' voting where invested in pooled vehicles (further detail can be found in the separate Voting Policy);
- We will seek to support direct engagement with corporate entities in which the Fund is either invested or may become invested;
- We will participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights); and
- We will ask investment managers to undertake and report on ESG-related engagement.

3. We will seek appropriate disclosure on ESG issues by the entities in which we invest – notwithstanding that our ability to do so is limited by the fact that all investments are managed externally which means that we do not have direct contact with underlying investee companies.

This includes the following:

- We will support the introduction of standardised reporting on ESG issues (using tools such as the Global Reporting Initiative);

- We will ask for ESG issues to be integrated within annual financial reports;
- We will ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact); and
- We will support shareholder initiatives and resolutions promoting ESG disclosure.

4. We will promote acceptance and implementation of ESG issues within the investment industry.

This includes the following:

- We will include ESG-related requirements in requests for proposals (“RFPs”);
- We will communicate ESG expectations to investment service providers;
- We will revisit relationships with service providers that fail to meet ESG expectations;
- We will support the development of tools for benchmarking ESG integration; and
- We will support regulatory or policy developments that enable better integration of ESG factors into investment decision making.

5. We will work with other investors to enhance our effectiveness in implementing ESG issues within the general investment framework.

This includes the following:

- We will support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning;
- We will seek to collectively address relevant emerging issues; and
- We will develop or support appropriate collaborative initiatives.

6. We will work to develop a framework to enable us to report on our activities and progress towards incorporating ESG issues in our investment and business processes.

This includes the following:

- We will seek to disclose how ESG issues are integrated within our investment practices;
- We will disclose our active ownership activities including voting, engagement, and/or policy dialogue;
- We will disclose what is required from service providers in relation to the incorporation of ESG principles; and

We will seek to make use of our reporting to raise awareness of ESG issues among a broader group of stakeholders.

4. Implementation Plan

Catholic Super will develop an Implementation Plan (“the RI Plan”) related to this Responsible Investment Policy that will set out the goals for implementation of the Responsible Investment policy and a framework for measuring progress and reporting to the Investment Management Group on an annual basis.

The RI Plan will be developed to ensure that Catholic Super invests in a way that reflects its investment beliefs as set out in the Investment Policy and Responsible Investment policy documents.

The RI Plan will define steps to achieve ESG integration across all stages of the decision making process, including identifying ESG related issues for strategy and asset allocation decisions, as well as manager review and manager selection for each asset class in which the Fund invests.

The RI Plan will define specific actions that can be taken at the portfolio level, as well as wider actions that might involve collaboration with other industry agents and Funds both at the local and international level.

5. Organisational Affiliations to help Catholic Super Achieve the Objectives of this Policy

In keeping with the collaborative emphasis in much of the Fund's Responsible Investment Policy, Catholic Super will seek to join with others to help achieve the objectives of the Policy.

This may include:

- Joining organisations whose objectives are consistent with the Policy;
- Sponsoring the establishment of new organisations whose objectives are consistent with the Policy; and
- Entering into engagement and policy initiatives with others to help comply with the Policy.

In keeping with these principles, Catholic Super has joined, sponsored or partnered with the following organisations:

- Regnan - Governance Research and Engagement
- Australian Council of Superannuation Investors
- The Investor Group on Climate Change (Australia and New Zealand)
- The Carbon Disclosure Project
- The United Nations Principles for Responsible Investment
- The International Investors Group on Climate Change
- F&C Management Limited

Catholic Super will continue to actively seek opportunities to join with like investors to help achieve the objectives of the Fund's Responsible Investment Policy.

6. Financial Commitment

In keeping with the importance that Catholic Super places on managing long term ESG risk and seeking to enhance long term performance from the avoidance of such risks, the Fund will commit an annual budget of 0.01% of assets to fund its activities in this area.