



# Environmental, Social and Governance Policy (IGF07)

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Superannuation Fund Pty Limited  
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## 1. Introduction

- 1.1 This Environmental, Social and Governance Policy (ESG Policy) is designed primarily to enable Motor Trades Association of Australia Superannuation Fund Pty Limited (Trustee) to manage the material risks associated with environmental, social and governance (ESG) factors and the socio-ecological externalities of its investment activities in its capacity as trustee of Spirit Super (Fund). The Trustee is both a registrable superannuation entity licensee (RSE Licensee) and the holder of an Australian financial services licence (AFS Licensee). As a trustee, the Trustee has an overarching obligation to act in the best financial interests of the beneficiaries of the Fund.
- 1.2 This ESG Policy forms part of the Trustee's broader Investment Governance Framework (IGF) and should be considered in conjunction with the other policies comprising that Framework.

## 2. Objective

- 2.1 The objective of this policy is to outline how Spirit Super applies ESG and sustainable investment considerations in the management of the Fund.

## 3. Definitions

<b>ESG</b>	Environmental, social and governance
<b>Impact investment</b>	An impact investment, the way that Spirit defines it, is an investment with compelling financial returns while also generating a positive, measurable social or environmental impact, based on our internal Impact Criteria.
<b>United Nations Principles for Responsible Investments (UNPRI)</b>	The UNPRI is one of the leading global organisations seeking to advance awareness and consideration of ESG and sustainable investment factors in global finance. Spirit Super is a signatory to the UNPRI.

## 4. Philosophy – Universal Ownership

- 4.1 The primary investment goal of the Fund is to deliver strong, long-term investment returns for members within prescribed risk tolerances and the Trustee's broader Investment Beliefs. One of these beliefs is that the Trustee should be a responsible, "active asset owner" and play a leadership role if and where it has sufficient capability and conviction.
- 4.2 The notion of active asset ownership broadens the narrow (mathematical) foundation of Modern Portfolio Theory to incorporate a more holistic assessment of the socio-ecological impact of large investors' capital allocation and asset management decisions. Such decisions are, arguably, more impactful in Australia where the national savings pool is becoming increasingly concentrated in fewer, larger superannuation funds.
- 4.3 Active asset ownership requires the Trustee to recognise and balance several factors, including the following:
- as a large capital allocator in Australia, the Fund's decisions are likely to have a non-negligible impact on markets, asset pricing, the environment, the governance of the assets it owns and the local communities in which it operates – we refer to this as our **ESG footprint**
  - the Fund's ultimate asset owners, its members, are a large and diverse group, many of whom will inevitably experience this impact in some way – hence the term **universal ownership**
  - the blind pursuit of short-term gains by large investors acting (as agents) in isolation and without due consideration of broader, longer-term socio-ecological externalities can

potentially undermine longer-term returns, an effect sometimes referred to as the **tragedy of the commons**

- iv. the Trustee must remain cognisant of its **fiduciary duty** to ensure all its decisions are in the best long-term financial interests of members – this means all ESG-related activity should have a clear, even if indirect, link back to members’ long-term retirement outcomes
- v. in this context, it is reasonable to consider **non-financial factors** that may significantly impact members’ quality of life in retirement such as catastrophic climate change or the risk of reputational damage to the Fund by association with a serious, adverse environment, social or governance event
- vi. there are many socio-ecological challenges the Trustee cannot hope to mitigate on its own, however it may have a more meaningful impact via collective action alongside other, like-minded investors – for this reason, the Trustee may consider participating selectively in ESG-related **collaborations**.

4.4 This core philosophy of Universal Ownership implores the Trustee to recognise the Fund is now an integral part of the market architecture and to explicitly consider its ESG footprint in decision-making over a longer time horizon, both in terms of risk management (Integration) and proactive origination of investment opportunities (Impact).

4.5 Under this philosophical framework therefore, all ESG-related activities will align with the Trustee’s broader fiduciary duty as long as they can be expected to support long-term value creation, including by:

- i. avoiding direct losses or impairment from specific, adverse ESG-related risk events or re-pricing;
- ii. avoiding a negative, long-term impact on performance and operational efficiency from reputational damage to the Fund due to a serious, adverse environment, social or governance failure;
- iii. reducing a drag on long-term returns from negative socio-ecological externalities which may be reduced or removed through (collective) action from large investors; and/or
- iv. taking advantage of opportunities created from changing social and consumer behaviours and attitudes and any associated evolution in government policy or regulation over time.

## 5. UNPRI Principles

5.1 In addition to its core philosophy, the Trustee is committed to meeting its obligations as a signatory of the UNPRI and its six aspirational principles as set out in the table below.

UNPRI PRINCIPLES		
Principle	Where is this Incorporated?	Practical application
<b>Principle 1</b> Incorporate ESG issues into investment analysis and decision-making processes	ESG Integration (See Section 7)	A broad spectrum of ESG-related risks are considered in the due diligence stage of new investments.
<b>Principle 2</b> To be active owners and incorporate ESG issues into ownership policies and practices	ESG Integration (See Section 7)	ESG risks are monitored for existing assets, funds and mandates including through voting and engagement (and, potentially, divestment).
<b>Principle 3</b> To seek appropriate disclosure on ESG issues of investee entities	ESG Integration (See Section 7)	Adequate information is sought to ensure suitable reporting to the Trustee, members, regulators, and relevant industry bodies.
<b>Principle 4</b> To promote acceptance and implementation of the principles within the investment industry	Engagement (See Section 7)	The Fund selectively participates in industry associations and partnerships to support the delivery of its ESG Policy.
<b>Principle 5</b> To work together to enhance effectiveness in implementing the principles	ESG Reporting (See Section 9)	A key purpose of the Annual ESG Review is to assess the effectiveness of the Fund's ESG Policy and the UNPRI principles and report on progress toward implementing those principles.
<b>Principle 6</b> To report on activities and progress towards implementing the principles	ESG Reporting (See Section 9)	As above.

## 6. ESG Priorities

6.1 The number of possible socio-ecological externalities is virtually infinite, and the Trustee has therefore necessarily set a small number of ESG Priorities that align with the Fund's overall strategy and are most impactful on members' long-term retirement outcomes.

6.2 In determining its ESG Priorities, the Trustee considers

- i. the systemic nature and/or materiality of the issue to its portfolio and its members;
- ii. its likelihood of success in achieving longer-term outcomes in terms of mitigating adverse socio-ecological outcomes or driving positive outcomes; and
- iii. the resource requirements and implementation cost including whether the outcome can be more effectively achieved through collective actions and/or partnerships with other, like-minded investors.

6.3 The investment team will monitor current and emerging ESG issues and present its recommended ESG Priorities to the Trustee from time to time, but no less than annually, as part of semi-annual ESG Reporting or ESG Policy review.

6.4 The Fund's current ESG Priorities are set out in the table below.

<b>ESG Priorities (last updated November 2023)</b>		
<b>Item</b>	<b>Example of Key Risks</b>	<b>Example of Key Opportunities</b>
<b>1. Supporting the transition to a low carbon economy</b>	<p>Extreme weather events, material losses, cost increases associated with more incremental physical risks, e.g., heat and water stress.</p> <p>Regulatory and policy risk, including the Safeguard Mechanism and potential carbon pricing.</p> <p>Stranded asset risk including as a result of shifting consumer preferences or technologies.</p> <p>Disclosure of Climate-related Financial Information, in line with Australian Sustainability Reporting Standards.</p>	<p>Assets and technologies that support a transition to a low-carbon economy.</p> <p>Financing energy transition opportunities within infrastructure such as transmission and distribution networks for renewable energy capacity.</p> <p>Energy efficient agri-businesses and recycling or waste diversion businesses.</p> <p>Reducing carbon exposure of portfolios relative to the benchmark in listed equities.</p> <p>Renewable energy project and low carbon technology solutions.</p>
<b>2. Supporting small to medium enterprises and strengthening Australian communities</b>	<p>Rising social and geographic income inequity.</p> <p>Resource and food security.</p> <p>Loss of local innovation, advanced manufacturing capacity and increasing import dependency.</p> <p>Hollowing out of regional industries and communities due to globalisation and, more recently, COVID-19.</p> <p>Reputational damages associated with breaches of the Commonwealth Modern Slavery Act 2018.</p>	<p>Regional businesses and infrastructure to support priority sectors including agriculture, advanced manufacturing, waste, water, and technology.</p> <p>Provision of capital to innovative SMEs with compelling technologies and growth aspirations.</p> <p>Investment in regional infrastructure and supply chains.</p> <p>Affordable housing or social bonds.</p> <p>Increasing access to essential services in healthcare, education, and social infrastructure.</p>

6.5 In relation to its first ESG Priority, the Trustee has adopted a Climate Change Position Statement to be made available to members and other stakeholders. The statement will be reviewed and updated, where necessary, from time to time – see [Climate Change Position Statement](#).

## 7. ESG Integration

### Introduction

- 7.1 Most investments embody environmental, social and governance related risks. The assessment and management of ESG risk is therefore a prudent component of any investment strategy. The focus of ESG Integration is to incorporate the consideration of a broad range of ESG factors into the Fund's broader investment risk management framework with due consideration given to the materiality of any expected impact on the overall risk and value of the portfolio.
- 7.2 ESG Integration is given effect through:
- i. the identification and assessment of material ESG-related risks in the **due diligence stage** of all new investments, including direct assets, funds and investment management mandates – see also the Investment Due Diligence Policy (IGF09) and the ESG Due Diligence Guidelines;
  - ii. the **ongoing review** of material ESG-related risks across the portfolio;
  - iii. the periodic (triennial) review of the Fund's **investment managers' ESG policies and practices including a determination of whether those policies and practices remain consistent with our ESG expectations and requirements**; and
  - iv. execution of **remediation strategies** to remove or reduce ESG-related risks that present a significant, intolerable risk to the Fund, including direct engagement and/or the divestment of assets, where possible, in the event that remediation of such risks is unsuccessful.
- 7.3 The ESG Due Diligence Guidelines outline the approach to the evaluation and assessment of investments with respect to ESG, the new investment ESG due diligence process, ongoing monitoring, and reporting, including for both external fund managers and directly held assets.
- 7.4 Oversight of the ESG Policy is the responsibility of the Investment Committee on behalf of the Trustee. The Investment Team will have day-to-day responsibility for implementing the Fund ESG Integration strategy in accordance with this ESG Policy. This includes voting on resolutions, engagement with managers, asset operators and company Directors and executives as required, as well as the divestment of any holdings as per 7.2(iv) above in accordance with decision rights and delegations granted by the Investment Committee.

### Manager selection and monitoring

- 7.5 As per the ESG Due Diligence Guidelines, for discretionary mandates, the Fund will rely primarily on the investment manager's ability to assess ESG-related risks for all underlying investments. Accordingly, consideration of a manager's ESG approach is a core part of the manager selection process, including assessing a manager's commitment to best practice ESG risk management and its ability to support the implementation of the Fund's ESG Policy.
- 7.6 Periodic review of each incumbent manager's ESG policies and practices is carried out by the Investment Team (or Asset Consultant where applicable) to ensure that the manager complies with its own ESG policy, maintains its ESG-related capabilities and/or is actively seeking improvement in areas where it is not considered best practice.

### Voting

- 7.7 Executing voting rights is an important tool to exercise active ownership and to engage with companies. The Trustee seeks to actively exercise its ownership rights including through voting on all shareholder resolutions where possible. The Fund reports its voting record for listed entities in public markets to members on a semi-annual basis via its website in accordance with ASIC Regulatory Guidance RG252.

- 7.8 In carrying out voting, the Investment Team considers advice from independent proxy voting advisors and the Fund's investment managers. Generally, the Fund will vote in accordance with this advice except where such advice is contrary to Investment Team's own research or the principles, priorities and practices set out in this ESG Policy.
- 7.9 The processes adopted by the Trustee in relation to the exercise of voting and proxy rights with respect to the Fund's investments are laid out in our Voting Policy (IGF08).

### **Engagement**

- 7.10 Direct engagement with investee companies on more significant ESG matters provides the Trustee an opportunity to drive remediation strategies to improve behaviours, environmental practices and/or corporate governance structures to support long-term value enhancement.
- 7.11 For listed assets, the Trustee recognises the significant resource needed to research ESG-related issues and undertakes engagement via the Australian Council of Superannuation Investors (ACSI). As a member of ACSI, we participate in stewardship efforts as a collective membership base through engaging on material ESG matters at ASX300 companies. By collaborating through ACSI, we are better positioned to engage companies as collectively ACSI represents around 10% of every ASX200 company. Accordingly, the Investment Team will only engage directly with company Directors and executives on ESG matters that are:
- i. identified as ESG Priorities or that otherwise present a material risk to the Fund and where it believes engagement may lead to meaningful mitigation of the risk; and/or
  - ii. undertaken as part of a broader engagement action by managers and/or other like-minded investors.
- 7.12 For unlisted assets, the Trustee recognises that, in many cases, it will have a more influential ownership position, including a majority or minority-control and therefore that direct engagement may be more successful in driving long-term value creation for members.
- 7.13 Accordingly, the Trustee seeks to proactively engage directly with management and boards of unlisted investee companies, where possible, via one or more of the following:
- i. direct engagement, including with or via the Fund's nominee Director(s) where relevant; and
  - ii. collective shareholder discussions, unitholder meetings and/or investor advisory committees.

### **Divestment and exclusions**

- 7.14 From time to time, the Investment Team may divest from an asset where it has exhausted all remediation options without success and still believes the ESG risk(s) are significant and/or otherwise intolerable.
- 7.15 The Investment Team may execute such divestment decisions subject to the delegations granted to it from the Investment Committee on behalf of the Trustee, however in doing so, it shall consider whether any such divestment may have material implications for the Trustee or the Fund including, for example, potential negative media coverage. Where this is the case, the Investment Team shall refer the matter to the Investment Committee for a final decision. As noted above, the Trustee may also direct the Investment Team to divest a portfolio holding at its discretion.
- 7.16 From time to time the Trustee may also consider excluding certain types of companies, sectors or asset classes from the Fund's portfolio where the risk return characteristics of those investments are deemed inappropriate from an ESG perspective, i.e. the ESG risks inherent in those companies, sectors or asset classes are likely to impede long term sustainable performance.
- 7.17 In considering such exclusions, the Trustee recognises that this can materially reduce the opportunity set for the investment strategy and carry a long-term opportunity cost in terms of risk-adjusted

returns. Accordingly, it is not the intention of the Trustee to systematically or regularly consider such exclusions, but only to do so in extreme circumstances or where it has very high levels of conviction.

7.18 At this time, the Trustee has resolved to seek to exclude tobacco manufacturing companies, controversial weapons manufacturers and companies primarily involved in the exploration and/or production of thermal coal from its Australian and international shares portfolio. These exclusions are enforced through exclusion clauses within Investment Management Agreements;

- i. Tobacco: Any company whose primary business is the manufacture and/or distribution of Tobacco, as defined by the MSCI GICS sub-industry "Tobacco".
- ii. Thermal coal: Any company primarily involved in the production and mining of coal in the GICS sub-industry "Coal and Consumable Fuels". The GICS sector does not include companies mining for metallurgical coal used for steel production. We are unable to exclude thermal coal from one legacy pooled fund investment at this time. F
- iii. Controversial Weapons: Any company which has any ties to cluster munitions, landmines, biological / chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments.

## 8. ESG Impact

8.1 ESG Impact refers to proactively seeking investment opportunities with compelling financial returns while also generating a positive and measurable social or environmental impact, based on our internal impact criteria, aligning with the Trustee's ESG Priorities, outlined in Section 6.4. The impact criteria sets out the scoring of investments based on environmental and social objectives, definitions of those objectives and how they are measured for internal reporting purposes.

8.2 The Fund's ESG Impact strategy will target the Trustee's agreed ESG Priorities set out in Section 6 and may be given effect through:

- i. setting appropriate medium-term targets with respect to the ESG Priorities;
- ii. proactive origination of impact investment opportunities through the establishment of deal sourcing networks and suitable investment structures;
- iii. establishment of well-conceived, cost-effective investment management or advisory agreements with suitably experienced and aligned partners;
- iv. assessment of alignment with internal impact criteria and measurement framework to assess prospective socio-ecological impacts as part of the Investment Team's broader due diligence processes and to report internally on the extent of socio-ecological impacts vis-à-vis targets;
- v. application of security selection methodologies, mainly in listed/liquid markets to support the achievement of impact targets, for instance, carbon screening of listed equity portfolios;
- vi. acquisitions, mainly in unlisted assets, of compelling impact investments including, for instance in renewable energy assets and technologies, social infrastructure, affordable housing projects or providing risk capital to innovative Australian small and medium enterprises;
- vii. execution of return-accretive capital expenditure projects in the Fund's directly held property and infrastructure assets that give rise to material, measurable socio-ecological externalities, such as improving NABERS or GRESB sustainability ratings; and
- viii. provision of debt finance to other projects that present strong positive socio-ecological benefits with respect to the ESG Priorities.

8.3 The Investment Team has responsibility for implementing the Fund's ESG Impact strategy in accordance with this ESG Policy and the decision rights and delegations granted by the Investment Committee on behalf of the Trustee.

8.4 For the avoidance of doubt, the Investment Team will not lower its return objectives nor compromise its investment discipline or due diligence processes for the sake of completing an otherwise compelling impact investment nor solely for the sake of achieving agreed impact targets.

## 9. ESG Reporting

9.1 The Investment Team will report semi-annually, or more frequently as required, to the Investment Committee on all significant ESG issues, activities and strategies including to notify the Committee of any matters that have been escalated for engagement and/or prospective divestment as set out in 7.2 above.

9.2 In addition to mandated disclosures with respect to Voting, the Investment Team will also communicate to members and other external stakeholders including via PDS and website communications on (among other things) the key elements and status of the ESG Policy and any significant activities undertaken since the most recent reporting in accordance with APRA and/or ASIC requirements.

9.3 The Investment Team monitor Key Risk Indicators for ESG Integration and Impact and will keep the Trustee informed via the Quarterly Risk Report.

## 10. Collaboration

10.1 The Trustee recognises that collaborating with and investing alongside like-minded, well-aligned investors can be an effective way of delivering long term value creation for members. Such activities can include the sharing of ideas and contemporary best practice as well as emerging areas of focus.

## 11. Roles and Responsibilities

Role	Responsibility
Trustee Board	<ul style="list-style-type: none"> <li>Approval and maintenance of the Trustee's Environmental, Social and Governance Policy (IGF07).</li> </ul>
Investment Committee (IC)	<ul style="list-style-type: none"> <li>Review the risks presented, and any recommendations made, via the Quarterly Risk Report and Semi Annual ESG Report.</li> </ul>
Governance, Risk and Compliance (GRC)	<ul style="list-style-type: none"> <li>Review the Trustee's Environmental, Social and Governance Policy (IGF07).</li> </ul>
Chief Investment Officer and Investment Team	<ul style="list-style-type: none"> <li>Monitor compliance with the Environmental, Social and Governance Policy (IGF07) and provide regular reporting to the Trustee Board (via the Investment Committee).</li> <li>Monitor current and emerging ESG issues and report on all significant ESG issues, activities, and strategies (including to notify the Committee of any matters that have been escalated for engagement and/or prospective divestment as set out in 7.2 above) from time to time, but no less than annually, as part of its semi-annual ESG Reporting.</li> <li>Present recommended ESG Priorities to the Trustee as part of semi-annual ESG Reporting or ESG Policy review.</li> <li>Undertake a quarterly assessment of risk, as per <u>9.3</u>, through the Quarterly Risk Report.</li> </ul>

	<ul style="list-style-type: none"> <li>The Trustee’s Environmental, Social and Governance Policy (IGF07) will be made publicly available (via the website) following policy commencement or amendment.</li> </ul>
External Advisors	<ul style="list-style-type: none"> <li>May be engaged to provide advice and/or assessments where necessary e.g., Asset Consultant.</li> </ul>

## 12. Review of this Policy

- 12.1 This Policy will be reviewed by the Trustee at least biennially. The Trustee may also review this Policy at any time for any reason, including where it becomes aware that this Policy:
- is out of date;
  - is no longer relevant to the circumstances of the Trustee; or
  - has failed or may fail to support the investment strategy of the Trustee.

## 13. Policy Owner

- 13.1 This Chief Investment Officer is accountable for this Policy and its implementation.

## 14. Revision History

Version	Reason for amendment	Date approved	Approved by
1	Initial Policy Created under the name Investment Governance Policy	16 October 2012	Trustee Board
2	Policy updated and name changed to ESG Policy	23 February 2016	Trustee Board
3	Policy updated to incorporate changes arising from triennial independent review and other changes.	25 August 2016	Trustee Board
4	Policy updated to incorporate approved ESG Philosophy and Principles, and various other enhancements	24 May 2018	Trustee Board
5	Updated as part of the implementation of revised Investment Beliefs and Review of the Investment Governance Framework	29 August 2019	Trustee Board
6	Updated to incorporate the Fund’s Modern Slavery activities	29 July 2020	Trustee Board
7	Policy refined to reflect Spirit Super’s ESG priorities including impact investment activities	26 August 2021	Trustee Board
8	Policy refined and updated as part of the annual review.	02 March 2023	Trustee Board
9	Policy refined and updated.	23 November 2023	Trustee Board

Version	Reason for amendment	Date approved	Approved by
10	Policy refined and updated.	19 June 2024	CIO