

# Responsible Investment Position Statement.

October 2017



BT Financial Group (“BTFG”) provides wealth management services to Australians across superannuation, insurance, investments and advice. Our mission is to help people prepare for their best financial future, forever. As the custodian of our customer’s assets, BTFG has a responsibility to protect and promote our customers’ financial interests and ensure the assets they entrust to BTFG continue to endure and prosper into the future. We believe that responsible investment is intrinsic to the provision of long-term value for our customers.

The purpose of this position statement is to articulate BTFG’s approach to responsible investing and to provide a framework for understanding and managing environmental, social and corporate governance (“ESG”) impacts, risks and opportunities across the portfolios within BTFG.

## Our Responsible Investment Principles

1. Consideration of ESG factors in the investments process can help drive better financial outcomes and improve risk-adjusted returns.

What we believe	What we do
<p>The active consideration of ESG factors in the investments analysis and decision-making process enhances our ability to meet the long-term investment objectives of our funds, consistent with our fiduciary duty.</p> <p>When we have a fiduciary duty we must act in the best interest of our customers. BTFG believes that better investment outcomes are achieved when ESG considerations are factored in to investment decision-making.</p> <p>When considering ESG factors in the investment process, BTFG is not seeking to take a moral or ethical stance on ESG issues. Instead, our approach is motivated by financial goals, aiming to create long-term sustainable value and/or manage risk.</p>	<ul style="list-style-type: none"><li>&gt; BTFG is a signatory to the Principles of Responsible Investment (“PRI”), a set of voluntary actions for incorporating ESG issues into mainstream analysis, investment decision-making and ownership practices. The Principles are available at <a href="http://www.unpri.org">www.unpri.org</a>.</li><li>&gt; We incorporate ESG issues into investment analysis and decision-making processes, and seek appropriate disclosure on ESG issues by the entities in which we invest.</li><li>&gt; We formally assess our Fund Managers’ approach to ESG integration across our multi-manager businesses, and actively encourage managers to include ESG factors in their investment processes. More information regarding our approach to ESG integration is provided on page 5.</li></ul>

## 2. We make solutions available to our customers to empower them to manage their own environmental and social impacts.

What we believe	What we do
<p>BTFG is continually seeking to deepen our approach to responsible investing and implement a whole-of-fund approach to ESG integration.</p> <p>Whilst we look to manage this across all investment activities, we recognise that customers may seek options aligned to specific environmental or social themes.</p> <p>To this end, we provide access to a range of products and services that assist our customers in implementing their own views on non-financial matters and how they are addressed in portfolios. This may be through the provision of education and research on investment platforms, or through core ESG funds that positively or negatively screen, select or tilt to a particular thematic.</p>	<ul style="list-style-type: none"> <li>&gt; We provide ESG research to our customers to assist them to identify a company's performance in relation to ESG issues, by making sustainability scores available for investments on BT Panorama and BT Invest.</li> <li>&gt; We undertake customer research to understand attitudes and expectations towards responsible investing, and develop products to meet our customers' needs.</li> <li>&gt; Our corporate superannuation products give members the choice of socially responsible and ethical funds, including:               <ul style="list-style-type: none"> <li>– BT Ethical Share Fund; and</li> <li>– BT Sustainable Share Fund.</li> </ul> </li> <li>&gt; For clients of our private bank, we provide direct investments that allow them to invest for positive and sustainable outcomes, aligned to their interests.</li> </ul>

## 3. As institutional investors and custodians of our customers' money, we have a responsibility to be active owners.

What we believe	What we do
<p>As universal owners, we consider that active ownership (i.e. proxy voting and engagement) with the companies in which we invest is fundamental in driving positive portfolio outcomes.</p> <p>As a substantial shareholder on behalf of our customers, BTFG recognises that we have an opportunity to influence the companies in which we invest through engagement and exercising voting rights, and therefore investment returns and risk over time.</p> <p>Where we have voting rights on behalf of customers, BTFG believes we have a responsibility to engage with companies to encourage good governance, transparency and sustainable business practices. In turn, the degree to which a company responds helps inform our view of the quality of the company's management.</p> <p>In regard to proxy voting on company resolutions, we believe we have responsibility to cast votes to influence the corporate governance of the companies in which we invest. Participation in the voting process ensures that we are working to protect our customers' interests.</p>	<ul style="list-style-type: none"> <li>&gt; BTFG undertakes active ownership at three levels:           <ol style="list-style-type: none"> <li>i. At a company level, through engagement and proxy voting, where we exercise voting rights on securities on behalf of customers.</li> <li>ii. 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; and</li> <li>iii. With fund managers, to promote good practices on active ownership and ESG integration consistent with their size, resources and investment philosophy.</li> </ol> </li> <li>&gt; In very limited circumstances, where it is deemed not feasible to influence a company through engagement or proxy voting, BTFG may consider excluding certain securities. Prior to exclusions being exercised, consideration is given to the impact of the exclusions on the investment options' ability to meet investment objectives, and investment strategy risks such as diversification.</li> </ul>

## 4. Transparency counts.

What we believe	What we do
<p>We believe in being transparent in our approach and progress. This includes regular reporting on our Responsible Investment activity, and in response to specific stakeholder requests for information.</p> <p>We also believe in giving our customers clear information to enable them to make more informed decisions. We provide ESG research to our customers, as well as specific detail on the carbon intensity of investment options within our retail and corporate superannuation funds.</p> <p>By measuring the carbon intensity of our funds we are able to better understand where risks may lie within our portfolios and also provide our customers with greater clarity on the investments they hold.</p>	<ul style="list-style-type: none"><li>&gt; We report on our activities and progress towards implementing ESG principles via:<ul style="list-style-type: none"><li>– the Westpac Group Sustainability Performance Report;</li><li>– the PRI framework; and</li><li>– through external bodies where disclosure is made as part of industry ratings or assessment.</li></ul></li><li>&gt; We provide climate-related financial disclosures, including the measurement and reporting of the carbon intensity of a range of investment portfolios.</li><li>&gt; We work with our third party providers to provide information regarding active ownership activities and focus areas for engagement undertaken by or on behalf of BTFG.</li><li>&gt; For funds where we have the ability to exercise voting rights, we make proxy voting records publically available.</li></ul>

## Our approach to exclusions

As an institutional investor with a stake in the wider economy we believe that positive outcomes can be more appropriately achieved through ESG risk management and company engagement, rather than blanket screening of certain types of investments. To this end, BTFG's preference is to engage with the companies in which we invest with a view to working with boards and management to address material ESG issues.

In exceptional circumstances, where it is deemed not feasible to influence a company through engagement or proxy voting, in certain superannuation options BTFG may consider excluding certain securities or industries where activity undertaken:

- > is unlawful in the relevant jurisdiction;
- > would lead to a contravention of international treaties or conventions ratified by Australia; and/or
- > is a severe breach of accepted business standards.

Prior to exclusions being exercised, consideration is given to the impact of exclusions to the investment options' ability to meet investment objectives, and investment strategy risks such as diversification.

A list of activities we currently exclude is provided below but may change from time to time. These exclusions apply to the majority of funds under management (FUM) across a range of superannuation products available through BTFG.<sup>1</sup>

We also recognise and support customers' preferences in relation to specific values-based investment preferences and, where possible, seek to offer a range of investment products and services to this end.

### Excluded Activities

The following activities have been assessed against BTFG's ESG Exclusions Framework and companies undertaking these activities are excluded from the majority of our superannuation investment options<sup>1</sup>.

These excluded activities may change from time to time and we will continue to monitor these and other emerging issues, and to regularly assess them against the defined framework.

<sup>3</sup> <sup>1</sup> Approved exclusions are applied to Australian and international equities held in our Lifestage options across all superannuation products (BT Business Super, BT Super for Life, BT Lifetime Super Employer Plan and Asgard Employee Super Account), as well as certain investment options included in Westpac Group Plan. The exclusions are not implemented across other asset classes or where BTFG does not have the ability to provide instructions or exercise other influence over the relevant underlying portfolio.

#### Activity: Growing and production of tobacco

BTFG recognises that the tobacco industry is a high risk sector. It is subject to regulatory uncertainty, litigation risk and significant sensitivities within the community.

The social consequences of smoking, including the health impacts, burden of the costs of health care and the addictive nature of the habit are undisputed. While the use of tobacco products is legal in Australia, there is no safe level of consumption.

Tobacco related companies are often un-diversified and exposed to significant potential litigation risks that could have a material impact on earnings. Where the growing of tobacco or production of tobacco products is the primary activity of a company often it is not possible to mitigate this risk within the business strategy.

The growing of tobacco and production of tobacco products is incongruent with the objectives of the World Health Organisation (WHO) Framework Convention on Tobacco Control (FCTC), to which Australia is a ratified signatory.

As such, in instances where BTFG has determined that engagement with companies whose primary activity is the growing of tobacco and production of tobacco related products is not feasible and is unlikely to meet the desired outcomes of ceasing this activity, BTFG may decide to exclude these companies.

#### Activity: Controversial weapons

Controversial weapons are so-called due to their indiscriminate and disproportional humanitarian impact on civilian populations, often with effects that can be felt long after military conflicts have ended.

A number of these weapons are banned under international agreements ratified by Australia.

This includes the following:

- > anti-personnel mines;
- > cluster weapons; and
- > biological and chemical weapons.

Instances where a company's activities include the production of controversial weapons and it has been determined that engagement is unfeasible, as the company has indicated it is not willing to alter its business activity to remove production of these weapons, BTFG may consider excluding these companies.

#### Activity: Severe breach of international norms such as the UN Global Compact (UNGC) principles

The UNGC is a set of ten principles designed to assist companies in adhering to globally accepted standards of business operations in the areas of human rights, labour rights, the environment and anti-corruption.

Breaches of these standards are considered severe where controversies are determined to be the result of serious and underlying systemic problems which pose a substantial and/or potentially catastrophic degree of risk to the company's value or the problems are inherent to the company's business.

Examples of a severe breach may include significant use of child labour, serious and recurrent environmental damage or directly contributing to activities that result in a breach of human rights.

Where a company is found to be in severe breach of one or more of the UNGC principles, and it is determined that engagement is either not feasible or not viable, for example due to the company's structure or strategy or a demonstrated lack of response regarding the issue, BTFG may consider excluding the company.

# Context

BTFG undertakes a range of activities to stay abreast of ESG issues, and maintains a watching brief on significant issues. This helps to inform our approach and the products and services we may offer, now and in the future. It also keeps us informed of investment risks and opportunities.

We are also guided by Westpac’s approach and commitments to sensitive sectors as detailed in the Westpac Group Position Statements. The full suite of positions is available on Westpac’s website.

In addition, this position statement has been developed in line with existing Westpac Group policies and statements, including:

- > Westpac Group Principles For Doing Business
- > Westpac Group Environment Policy
- > Westpac Group Sustainability Risk Management Framework
- > BTFG Investment Governance Policy
- > BT My Super ESG Policy
- > BT Superannuation Proxy Voting Policy
- > Advance Proxy Voting Policy
- > Advance Sustainable Investment Philosophy and Beliefs

## Definition of ESG

ESG is the term used by capital markets and investors to refer to a range of non-financial performance indicators of companies. ESG risk is the risk to a fund’s performance and ability to meet its long-term objectives of maximising return for a given level of risk, due to failure to recognise or address material existing or emerging environmental, social or governance factors.

The term ‘ESG integration’ refers to the activities undertaken to protect or enhance value and/or manage risks through taking a broader, more comprehensive approach to investment analysis, decision-making and engagement. Guidance as to the broad nature of some of these factors follows:

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 engagement

## ESG integration across our businesses

### i. ESG integration in a fund of fund multi-manager context

In the context of BTFG’s multi-manager investment strategy, ESG incorporation and engagement is via the selection, appointment and ongoing monitoring of external managers. The level of ESG integration and individual investment manager capabilities forms a part of our selection process. We expect our investment managers to include ESG factors in their investment processes with consideration given to their size, resources and investment philosophy.

We undertake a formal assessment of a manager’s approach to the integration of ESG factors, in addition to ongoing dialogue around ESG issues. The ESG credentials of newly proposed and shortlisted managers are reviewed and considered in our manager selection and review process. BTFG is also committed to practicing active ownership and to working with managers to ensure voting rights are exercised appropriately.

## ii. ESG integration in a platforms context

BTFG's platforms business provides open architecture investment platforms that give customers access to managed funds, listed securities, term deposits and other financial services. BTFG's in-house research team (Investment Research Governance) is responsible for the oversight and monitoring of all fund managers on the platforms, and makes recommendations on the selection, closure and removal of assets on the platform.

In an open architecture environment, ESG integration is concentrated on the fund manager selection and monitoring process, on engagement and active ownership, and through the provision of ESG research and tools.

In regard to fund manager selection and monitoring, BTFG undertakes an assessment of a manager's approach to ESG integration and actively encourages managers on the platform to become PRI signatories (if they have not yet done so).

The research team also undertakes engagement and proxy voting in relation to unit-holder matters of a fund offered on the platform, seeking to best represent our customers' interests in any unit-holder vote. BTFG participate in all unit-holder votes where its voting units as a percentage of the total fund are considered material. In addition the research team – through regular review meetings with fund managers – also discusses the voting track records of managers.

## iii. ESG integration in an advice context

As part of the process for researching and recommending funds for the Bank-owned financial planning and BT Group Licensee businesses BTFG will consider an investment manager's approach to ESG integration as one of many considerations.

BTFG is committed to raising the focus on ESG integration with investment managers, and will embed an approach that places increasing emphasis on demonstrated integration. As part of this process, we will also track whether an investment manager is a PRI signatory, and will encourage all managers to become signatories (if they have not yet done so).

## Our approach to active ownership

### i. Collaborative engagement and active ownership

BTFG's priority in ESG engagement is improved long-term investment outcomes for customers. Through third-party service providers, BTFG accesses a collaborative engagement service that researches, identifies and prioritises ESG issues, and that acts for a collective of institutional investors in seeking assurances and/or behavioural changes from companies. Where appropriate, BTFG may augment this with our own engagement initiatives.

### ii. Proxy voting

For BTFG's multi-manager funds, voting is undertaken by the underlying investment managers and BTFG monitors this through a reporting process. BTFG reserves the right and may, on occasion, direct external managers on how votes should be cast.

In BTFG's platforms businesses, voting is undertaken at a Fund Manager level. We may also undertake unit-holder voting, and see this as an important responsibility where BTFG holds the voting rights on behalf our clients.

In some cases this requires BTFG to undertake strategic voting in support of a particular issue or to bring about change in the governance of a fund. Issues that we regularly vote on include changes in Responsible Entity (RE), fund constitution, benchmarks, fees, fund mergers/ demergers and buy-backs.

BTFG has clear unit-holder voting procedures in place that require consideration of key resolutions by notification, engagement, written recommendations, and approval. Material resolutions at unit-holder meetings are then voted on by proxy or in person with results communicated to all relevant parties.

As stated in the BT Superannuation Proxy Voting Policy, and consistent with FSC Standard 13, voting records for funds covered by BT's Responsible Superannuation Entities will be published annually on our website at [www.btf.com.au](http://www.btf.com.au). We will continue work to broaden our disclosure practices to ensure that in time all voting decisions referred to in this policy are publically disclosed.

For all funds managed by BTFG, where we have the ability to exercise voting rights, we do so in accordance with the Advance Proxy Voting Policy, and disclose our voting records both of which can be found at [www.advance.com.au](http://www.advance.com.au).

### **Research and activities that keep us informed**

BTFG believes that in order to stay abreast of best practice and trends, and in order to influence and lead policy, it is important to be actively involved in a range of industry groups and to access information from leaders in ESG research.

BTFG is an active member of the Responsible Investment Association of Australasia (RIAA), the Investor Group on Climate Change, Australia/New Zealand (IGCC), and the UNEP-FI Portfolio Carbon Initiative. We actively participate in a number of ESG-related organisations.

We access research from numerous sources including dedicated ESG organisations such as Regnan, Hermes EOS, broker research houses, and industry groups such as IGCC, RIAA, and CDP (formerly Carbon Disclosure Project).

### **Governance**

Ultimate responsibility for our Responsible Investment performance rests with our CEO and Senior Management Team. Our investment management team, led by the Chief Investment Officer (CIO), has responsibility for the day-to-day integration and management of ESG impacts, risks and opportunities to the multi-manager investment portfolios. Investment professionals with specialist knowledge of ESG issues and risks are employed within the investment team.

### **Position statement review**

This position statement is reviewed every two years or more frequently as required to ensure that it remains current.

## **For more information**



[bt.com.au/about-us](https://bt.com.au/about-us)

