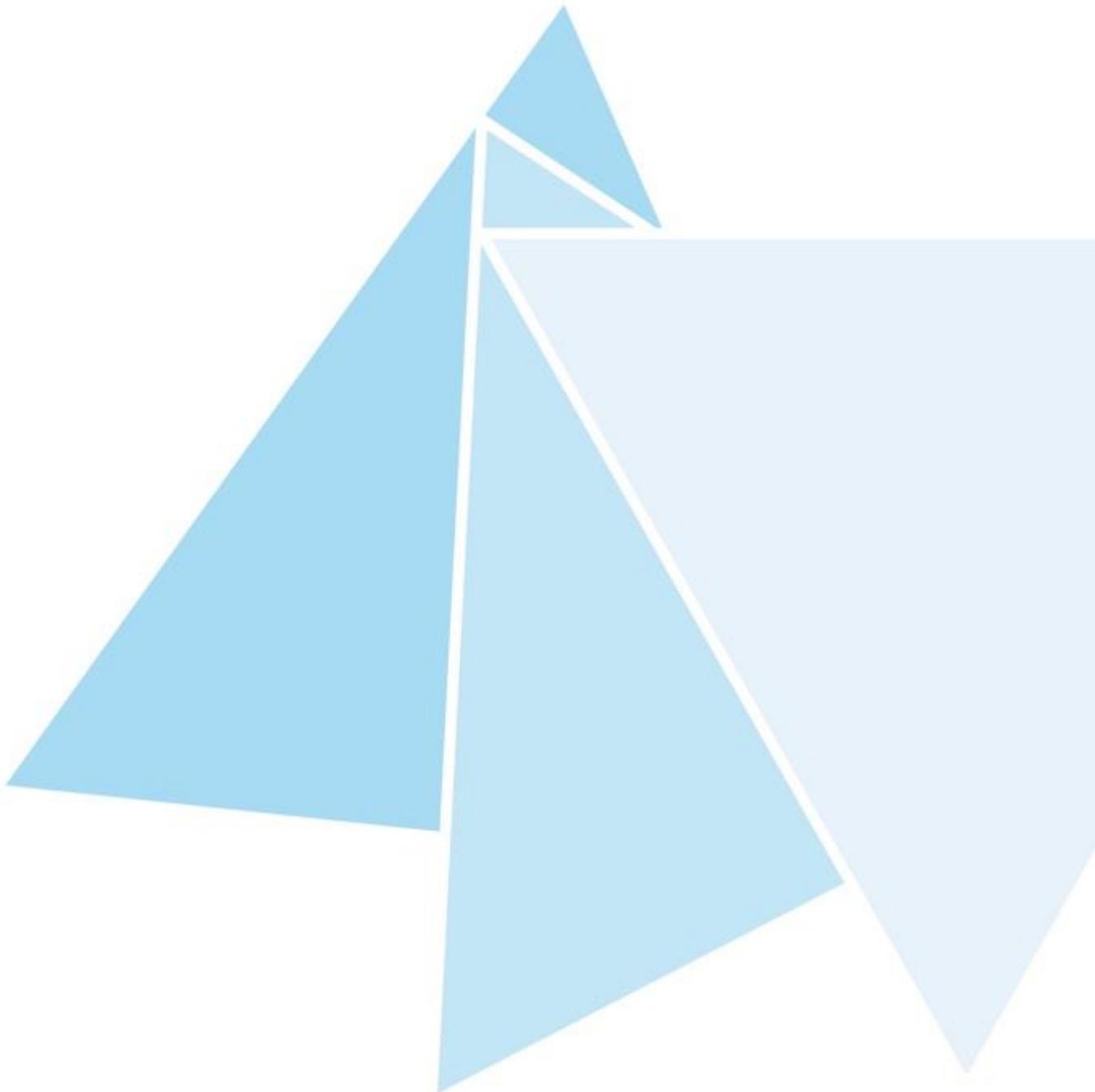


# Investment Stewardship Policy

February 2022



Improving the future prosperity of Victoria

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# 1 Introduction

## 1.1 Purpose

Victorian Funds Management Corporation (VFMC) manages funds for the State of Victoria and related Victorian public authorities. VFMC provides these services in line with its obligations under the *Victorian Funds Management Corporation Act 1994* (VFMC Act) and the Centralised Investment Model (CIM).

In delivering investment returns consistent with the long-term objectives and risk appetite of the State and clients, VFMC’s investment activities include being a responsible investment steward. This means that we seek to holistically look after our clients’ assets over the long-term, in a responsible manner.

The purpose of this policy is to set out, at a high level, VFMC’s approach to investment stewardship.

It is VFMC’s belief that investment stewardship activities:

1. Are consistent with client and wider community expectations of a leading asset manager
2. Optimise our ability to deliver sustainable long-term returns for our clients
3. Assist in managing investment risk and identifying opportunities

VFMC’s approach to investment stewardship focuses on four key areas of work:

- a. Active ownership
- b. ESG integration
- c. Undertaking major ESG projects
- d. Collaboration

The field of investment stewardship is broad and encompasses diverse areas of consideration. As such, it is intended that this policy has broad application. Notwithstanding, VFMC has a longstanding and ongoing focus on several priority themes. These themes are itemised in the table below and are broadly mapped to the UN Sustainable Development Goals (UNSDGs).

The UNSDGs are a universal call to, and framework for, global action to end poverty and protect the environment (across multi-lateral agencies, government, civil society, investors, and business). Some, but not all UNSDGs relate to companies, i.e.:

- **What** a company does (its products and services)
- **How** a company does it (its culture and operations)

As an investor, the UNSDGs provide us with another lens by which to consider the entities that we are investing in. We are in the early stages of considering the UNSDGs and reference them in this policy as a means by which to acknowledge their importance and to signal directional alignment between the UNSDGs and our approach to investment stewardship.

Priority theme	Associated SDGs
<b>Strong Governance and Company Culture</b>	SDG 16 - Peace, justice, and strong institutions
<b>Climate Risk Management</b>	SDG 7 – Affordable and clean energy SDG 11 – Sustainable cities and communities SDG 12 – Responsible consumption and production

	SDG 13 – Climate action SDG 14 – Life below the water SDG 15 – Life on land
<b>Work and Labour standards, including modern slavery and human rights</b>	SDG 8 – Decent work and economic growth SDG 10 – Reduce inequality
<b>Occupational health and safety</b>	SDG 3 – Good health and wellbeing
<b>Diversity and Inclusion</b>	SDG 5 – Gender equity

## 1.2 Objectives

The objective of this policy is to articulate VFMC’s high-level approach to investment stewardship and ensure that VFMC maintains a contemporary approach.

## 1.3 Scope

This policy covers VFMC’s investments across all asset classes (both internally and externally managed) and all jurisdictions.

## 1.4 Framework

The Policy was developed with reference to peer and industry practice regarding investment stewardship.

## 2 Policy principles – investment stewardship

VFMC's approach to investment stewardship, irrespective of topic or theme, centers around one or more of the following key areas of work:

- a. Active ownership
- b. ESG integration
- c. Undertaking major ESG projects
- d. Collaboration

Our general approach to each of these is described in more detail below.

### 2.1 Active ownership

As a large investor and steward of our clients' capital, we are bestowed with ownership rights that we seek to use in a responsible manner. Accordingly, as part of our approach to investment stewardship we seek to be an active owner. We do this by:

- Proactively engaging with investee companies and external fund managers on a range of ESG related matters
- Exercising our proxy votes at listed company and unlisted fund meetings

Actively engaging and voting ensures that we maintain a strong focus on the corporate governance and broader ESG practices in place at the companies in which we invest our clients' money. It also provides us with the ability to influence and drive positive change in the practices of investee companies.

#### Engagement

VFMC engages directly and indirectly with investee companies regarding a broad range of issues, including ESG related matters. The focus of our ESG related engagement tends to be on:

1. Building mutual understanding
2. Influencing positive change and continuous improvement in corporate practices and behaviours
3. Addressing ad hoc issues that may arise
4. Governance and AGM related matters

In addition to directly engaging with investee companies, VFMC is a member of the Australian Council of Superannuation Investors (ACSI). ACSI engages with listed companies in a collective manner on behalf of its members regarding ESG related matters.

VFMC's external fund managers also engage with investee companies and we periodically discuss corporate engagement activities with our fund managers. This provides us with a means by which to share knowledge and enhance our understanding of the issues at hand. It also allows us to test the active ownership capabilities of our external fund managers.

#### Voting

VFMC actively exercises its voting rights at listed company and unlisted fund meetings. In doing so, VFMC adopts a rigorous approach to evaluating the resolutions before it and does not automatically follow proxy voting advice. In determining how to vote VFMC considers:

- Principles of good corporate governance
- Proxy voting research
- External manager analysis
- VFMC's equity analysts' views
- Engagement with the company
- Commercial considerations

For more information on VFMC's approach regarding proxy voting, see our [proxy voting policy](#).

## 2.2 ESG integration

Central to being a responsible investor and active steward of capital, is seeking to ensure that ESG factors are systematically integrated into the investment management process, in a pragmatic manner. Considering ESG issues as part of the investment management process provides investors with another lens through which to view, assess and understand investee companies and investment managers. At VFMC, when integrating ESG into the investment management and decision making processes (both internally and externally managed), we:

- Include ESG as part of the pre-investment due diligence process
- Seek to monitor:
  - How external managers are considering ESG
  - The ESG performance of companies and assets
- Incorporate material ESG issues into engagement and voting activities
- Seek to comprehensively assess (and manage) material ESG risks across the portfolio (e.g. climate change and human rights)

As part of integrating ESG into VFMC's 'whole of portfolio' approach to investing, we also monitor:

- State, national and international regulatory and policy developments in the ESG field
- The latest industry and academic research and analysis regarding investment stewardship and ESG integration
- New and emerging ESG related investment products and approaches

### Exclusions

VFMC is a mainstream investor and except in limited circumstances does not seek to exclude investments according to ethical criteria. Any decision to divest is not taken lightly and exclusions are only considered (and put in place) where it is believed that there is no other option by which to manage or ameliorate the risks. In this regard, it is noted that VFMC excludes thermal coal mining, tobacco and cluster munitions. VFMC has a formal process in place to guide its decision-making regarding exclusions. See Appendix 1 for current exclusions.

## 2.3 Major ESG projects

To ensure a robust approach to investment stewardship that continues to evolve and develop, VFMC from time to time conducts a range of important ESG projects to support its investment stewardship activities. While these projects do not specifically fall under the auspices of 'active ownership' or 'ESG integration', there are several reasons for undertaking these projects, such as ensuring that VFMC:

- Continues to develop its understanding of key issues and risks
- Proactively manages ESG risk
- Complies with relevant regulatory requirements
- Conducts its activities in accordance with generally accepted industry practice and standards

Modern slavery and climate risk management are two examples of ESG projects.

Although VFMC is a 'mainstream' investor, provided the investment attributes satisfy our portfolio objectives, VFMC will on occasion seek to invest in opportunities that provide a positive environmental, social and governance impact, including those that align to UN Sustainable Development Goals (UN SDG's).

## 2.4 Collaboration and Information Sharing

A key part of being a responsible investment steward is collaborating with other investors to influence change across the market, at a systemic level. This is because the collective influence of investors is often greater than what can be achieved by any individual investor. It is also an efficient way in which to work, particularly given that investment stewardship and ESG activities are expansive in nature, encompassing all asset classes, many geographies, and a diverse range of issues.

In collaborating and working with others, we are conscious of the fact that in the field of ESG there are many collaborations and that VFMC cannot feasibly participate in them all. In deciding whether to participate, we consider a range of factors, including:

- Whether the collaborative initiative is directionally aligned with VFMC's approach to investment stewardship
- Client expectations and priorities
- Consistency with Victorian Government policy over the longer term
- The ability of the initiative to drive meaningful practical change

Related to our collaborative activities, we also seek to share information with our clients, peers, and key industry groups. The sharing of collective knowledge strengthens the industry as a whole and ensures that we garner learnings from others.

### 3 Document Information

#### 3.1 Document Status

Original issue date	February 2009
Current approval date	May 2021 – draft for approval
Document category	Board level policy
Annual attestation required	No
Policy induction session required	No

#### 3.2 Document Review and Approval

Policy role	VFMC role	Minimum review frequency	Last review date	Next review date
Owner	Head of Investment Stewardship	Annually	February 2022	February 2023
Approver 1 (ELT member)	CIO	Annually	March 2022	March 2023
Approver 2 (Management committee)	ORMC / EIC	Every two years	March 2023	March 2025
Approver 3 (Board committee)	ARCC	Every two years	N/A	May 2023
Approver 4 (Board)	Board	Every two years	N/A	May 2023

#### 3.3 Document History

Version	Date	Summary of changes
1	2009	First issue – ESG Investment Policy.
2 - 8	2010 - 2019	Annual review, minor amendments, including change from Board approval to ORMC approval in February 2012.
9	2021	The policy has been re-written and updated to reflect VFMC's broader approach to investment stewardship. Renamed to Investment Stewardship Policy.
10	2022	Annual review, minor amendments including consistent terminology for exclusions and inclusion of impact investments.

## Appendix 1 – Current exclusions

VFMC has the following exclusions in place.

### **Tobacco exclusion**

VFMC excludes investments in companies involved in the manufacturing of tobacco products as defined by MSCI in its Global Industry Classification Standard (GICS®) framework.

### **Cluster munitions exclusion**

VFMC excludes investments in companies associated with cluster munitions as required by our interpretation of the 2012 amendment to the Criminal Code (Cth), Division 72, Subdivision C.

### **Thermal Coal exclusion**

VFMC excludes investments in companies primarily involved in the production and mining of thermal coal as defined by MSCI in its Global Industry Classification Standard (GICS®) framework