



Environmental Social and Governance (ESG) Policy

8 December 2011

Commonwealth Superannuation Corporation (CSC) believes in sustainable investing, defined as responsible deployment of ESG policies; active ownership practices (Proxy voting policy); and consideration of inter-generational equity. CSC's ESG Policy includes active engagement with companies for better governance; applies investment-driven strategies; and excludes specific holdings in activities banned or likely to be banned by the Australian Government.

Policy Goals

Commonwealth Superannuation Corporation's (CSC's) primary investment objective is to maximise long-term real returns for members whilst keeping risk to an acceptable level. We believe that poor management of environmental, social and corporate governance (ESG) issues can lead to financial risks as well as a decline in the long term value of shareholder investments. Analysis of ESG exposures and risks is a part of CSC's risk management.

In particular, CSC believes:

1. As capital allocators we are obliged to continuously seek the most productive uses for our capital resources. Sustainability across processes, people and assets is an intrinsic element of productive capital usage.
2. ESG considerations as they pertain to sustainability across processes, people and assets are also an intrinsic element of our risk management.

CSC exercises these beliefs in three principal ways:

- A. CSC's approach to implementing ESG practices in its investment process is primarily through research and engagement, not exclusion*. CSC works collaboratively with a diverse group of investment managers, advisors and shareholder groups to influence companies to adopt good ESG practices. CSC is able to more effectively bring about change by working collaboratively and engaging on ESG issues with companies, rather than by simple divestment.
- B. CSC acts as a responsible corporate citizen and embraces our proxy voting responsibilities. Where possible, we vote on all matters brought to shareholders by the companies in which we invest. Where required, we engage with companies directly or collaboratively with other shareholders, on matters that give rise to ESG risks.
- C. CSC publicly communicates its ESG policy and practices. CSC uses its influence as one of Australia's largest superannuation funds to promote good ESG practices. CSC encourages investment managers, advisors and companies it invests in to adhere to ESG principles maintain an ESG policy and report ESG activity.

In meeting its investment objectives, CSC invests in a diverse portfolio of assets including Australian Equities, International Equities, Private Capital, Direct Property, Infrastructure, Credit and Fixed Income, Alternatives and Cash. All investments are managed by external investment managers.

United Nations Principles for Responsible Investment

CSC participated in the development of The United Nations Principles for Responsible Investment (PRI) and became one of the first signatories to the Principles in December 2006. We believe that over time the importance and effectiveness of the PRI will increase, giving investors a collective and effective voice on ESG matters and risks. We are committed to making sure that all investment activities we undertake are consistent with these Principles. These Principles state:

- PRI1. We will incorporate ESG issues into investment analysis and decision-making processes.
- PRI2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
- PRI3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- PRI4. We will promote acceptance and implementation of the Principles within the investment industry.
- PRI5. We will work together to enhance our effectiveness in implementing the Principles.
- PRI6. We will each report on our activities and progress towards implementing the Principles.

Assessment

CSC analyses the ESG exposure of investments and includes ESG exposures as one of the factors used to develop and maintain an appropriate risk management process in order to meet its long-term investment aims. CSC assesses the ESG impact of its investments to understand the risks arising from ESG factors in the investment portfolio and to actively engage with investment managers on an informed basis.

Implementation

CSC's Chief Investment Officer has overall responsibility for the implementation of voting and engagement activities. CSC employs a dedicated full time ESG manager whose duties include active engagement with other superannuation funds and ESG focussed bodies including the United Nations Principles for Responsible Investment (UNPRI) Secretariat and investment managers. CSC subscribes to global screener and data service providers to identify potentially systemically risky companies.

CSC uses internal risk management processes to gain transparency on where ESG risks may arise in the portfolio and under which investment manager mandates. CSC enters into an active dialogue with the active investment managers through which it invests about their implementation of social responsibility. If the dialogue does not result in an outcome consistent with CSC's ESG policy, CSC may decide to apply its manager exclusion policy. Excluded managers are no longer allocated capital and the Board may remove them from the investment-grade manager lists.

CSC participates actively in the development and implementation of best practice ESG standards around the world:

- > CSC engages on ESG matters with investment managers, advisors and service providers, as part of regular reporting, review and selection processes.
- > CSC encourages investment managers, advisors and service providers to adhere to ESG principles, maintain an ESG policy and report ESG activity.
- > ESG factors are a part of CSC's reporting requirements with investment managers and advisors.
- > CSC engages with a number of service providers to measure ESG risks, analyse impacts of ESG risk and research ESG issues.
- > CSC, independently or collaboratively with other shareholders and advisors, engages with companies we invest in on ESG issues. We encourage companies to disclose ESG policies, activities and performance against accepted and appropriate benchmarks.

Proxy Voting

CSC maintains an active Proxy Voting Policy.

CSC values good governance in its own operations, in its service providers and in the companies in which it invests. CSC regards the right to vote as an asset to be managed and exercised in the discharge of its Trustee duties. CSC regards its voting rights as an important tool for communication with the boards of investee companies and requires that its investment managers protect its shareholder entitlements and actively resist proposals and practices that disenfranchise shareholders.

Communication

As part of CSC's aim to engage with members, investment managers, advisors, companies and other stakeholders, CSC encourages open and frequent communication on ESG matters. To further this aim, we

- > Publish our ESG and Proxy Voting Policies.
- > Publish semi-annual proxy voting activity reports and annual ESG activity reports.
- > Communicate with our members on ESG policies, risks and activities.
- > Encourage companies to disclose ESG policies, practices and performance either in regular financial reports or standalone reports.
- > Collaborate with other investors to request ESG information from companies, managers, advisors and other financial intermediaries.
- > Encourage investment managers to maintain ESG policies, report ESG risks, highlight actions taken to reduce ESG risks, engage in ESG research and publicly publish ESG activity.

*In assessing and managing the ESG risk to member investments, CSC primarily uses a non-exclusion ESG filter to rate individual security risk and guide measures for mitigation via manager selection, monitoring, engagement and termination processes. This activity should not be confused with Board decisions to systematically exclude some investments on the basis of other types of investment risk.

Appendix A: Measuring Success 2011

The key measure of success of CSC's ESG policy is our relative performance versus global peers in implementing activities to operationalize the UN Principles of Responsible Investing (Figure B.1).

- > Over the 2010 year, our rating has been above peers in all categories except for PRI1.
- > While our PRI1 score increased between 2010 and 2011 (relating to activities in 2009 and 2010), median scores for all asset owners against whom we are assessed increased by a relatively greater value.
- > This can be attributed, in part, to our nature as a Fund-of-Funds manager. We can integrate ESG awareness into the investment decision-making processes of external investment managers, via mandate, in developed market equities and property asset classes, but have limited ability elsewhere (price taker in hedge funds; pooled vehicles via engagement only).
- > There are opportunities to increase our score on this item by introducing some staff training on global ESG policies & trends.

Collaborative relationships

CSC has developed collaborative relationships with other domestic and international investor groups in order to:

- > Engage with investee companies to increase advocacy and participation in the public policy debate
- > Initiate and advance the ESG research agenda
- > Promote increased corporate governance standards worldwide
- > Address the risks and opportunities associated with climate change and monitor the public policy response to it.

These engagements are taken into account in the UNPRI assessments and have influenced our high ranking in 2011.

Figure B.2 details the nature and purpose of our collaborative relationships with the responsible investing community.

*Footnote to Figure B.1: International UNPRI ranking of Funds' vs. global peers in the implementation of the UN Principle in 2010. 1 is the highest and 4 is the lowest rating achievable. The UNPRI Secretariat has reported that the scoring methodology has been developed in an attempt to represent participants' level of implementation relative to peers, however the scoring methodology and specific questions have changed each year and so year on year scores may not be directly comparable. Rapid growth in the number of participating signatories each year is also likely to have affected relative performance indicators.

Figure B.1: CSC's UNPRI Rating: 2011

UNPRI Principles & CSC's rating*	Typical activities covered
<p>PRI1</p> <p>We will incorporate ESG issues into investment analysis and decision-making processes.</p> <p>CSC Rating: 3</p>	<ul style="list-style-type: none"> > Maintain and publish our ESG policy. > Incorporate ESG into manager selection process. > Train CSC investment staff on ESG protocols & trends. > Measure ESG exposure of investments where practicable and incorporate in risk process. > Encourage managers and advisors to maintain ESG policies. > Encourage service providers to include ESG factors as part of broader risk analyses. > Incorporate ESG reporting requirements into investment management agreements > Include ESG risk analysis as part of real asset class reviews.
<p>PRI2</p> <p>We will be active owners and incorporate ESG issues into our ownership policies and practices.</p> <p>CSC Rating: 1</p>	<ul style="list-style-type: none"> > Maintain and publish our proxy voting policy. > Exercise voting rights where practicable. > Work with advisors on shareholder engagement. > Where possible and appropriate, collaborate with other shareholders. > Encourage companies to disclose ESG policies, practices and performance. > Encourage managers, advisors and service providers to maintain ESG policies and report on ESG activity.
<p>PRI3</p> <p>We will seek appropriate disclosure on ESG issues by the entities in which we invest.</p> <p>CSC Rating: 2</p>	<ul style="list-style-type: none"> > Encourage companies to disclose ESG policies, practices and performance. > Work with key ESG relationships and collaborate with other investors to request ESG information from companies. > Encourage managers and advisors to maintain ESG policies and publicly publish ESG activity. > Incorporate ESG reporting requirements into investment management agreements.
<p>PRI4</p> <p>We will promote acceptance and implementation of the Principles within the investment industry.</p> <p>CSC Rating: 1</p>	<ul style="list-style-type: none"> > Work with key ESG relationships and collaborate with other investors to include ESG principles in regulatory or policy reviews. > Encourage managers, advisors and service providers to maintain ESG policies and report on ESG activity. > Incorporate ESG reporting requirements into investment management agreements.
<p>PRI5</p> <p>We will work together to enhance our effectiveness in implementing the Principles.</p> <p>CSC Rating: 1</p>	<ul style="list-style-type: none"> > Work with key ESG relationships and collaborate with other investors to request ESG information from companies. > Work with key ESG relationships and collaborate with other investors to include ESG principles in regulatory or policy reviews.
<p>PRI6</p> <p>We will each report on our activities and progress towards implementing the Principles.</p> <p>CSC Rating: 1</p>	<ul style="list-style-type: none"> > Publish ESG and proxy voting policies. > Publish ESG activity reports annually. > Publish proxy voting activity statements semi-annually. > Inform members of ESG and proxy voting activity. > Inform managers, advisors and other service providers of CSC's ESG policies and practices.

Figure B.2: CSC's Collaborative Relationships with Responsible Investing Community

Industry collaboration	
United Nations Principles for Responsible Investment (UNPRIs)	<ul style="list-style-type: none"> > To provide a web-based clearinghouse for collaborative initiatives. > To facilitate networking among members through educational and information sharing activities. > To support members in meeting their commitments to the UNPRIs.
Australian Council of Superannuation Investors (ACSI)	<ul style="list-style-type: none"> > To assist members in the practical management of ESG risk. > To support engagement with investee companies facilitating advocacy and participation in the public policy debate. > To maintain a research agenda on key governance related matters, ensuring that industry views and positions are soundly based on fact. Areas of research include: <ul style="list-style-type: none"> • executive remuneration • risk management • management of extra-financial risk, including material ESG risk such as climate change • board succession planning • board composition and director performance • disclosure of performance issues • sustainability reporting
Regnan Governance Research and Engagement	<ul style="list-style-type: none"> > To support sustainable long-term performance of S&P/ASX 200 companies by active engagement with the management of Australian companies. > To improve market conditions in Australia.
International Corporate Governance Network (ICGN)	<ul style="list-style-type: none"> > To raise corporate governance standards worldwide by encouraging cross-border dialogue and participation in public policy debate.
Investor Group on Climate Change (IGCC)	<ul style="list-style-type: none"> > To promote research and participation in the development and support of public policy. > To promote standardised reporting on ESG issues > To promote collaborative engagement across the industry by facilitating shared resources and collectively addressing emerging issues.
Carbon Disclosure Project (CDP)	<ul style="list-style-type: none"> > To develop and maintain the largest database of primary corporate climate change information in the world.
Carbon Disclosure Project Water Disclosure	<ul style="list-style-type: none"> > To conduct research on CDP Water Disclosure of the FTSE Global Equity Index Series companies, focusing on sectors that are water-intensive or are exposed to particular water-related challenges.
ESG Research Australia (ESGRA)	<ul style="list-style-type: none"> > To increase the amount and quality of stock broker research in Australia and promote the consideration of environmental, social and governance issues.