

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR

Equip

EQ91QW:

Please provide the titles of all externally commissioned reports over the past five years that have reviewed any of the following:

- a. Performance of funds.
- b. Investment strategies for funds.
- c. Conflicts of interest for funds.

Answer:

- a. Equisuper has externally commissioned:
 - Monthly performance reporting by National Asset Servicing, the Fund's custodian.
 - Quarterly investment reports by JANA, the Fund's asset consultant.

- b. Equisuper has commissioned reviews of each asset class sector. These are performed by JANA, the Fund's asset consultant, as per the following:
 - Australian equities asset class review
 - International equities asset class review
 - Property asset class review
 - Infrastructure asset class review
 - Growth alternatives asset class review
 - Defensive alternatives asset class review
 - Diversified Fixed Income asset class review
 - Cash asset class review

Equisuper has also commissioned from JANA the following;

- Annual review of Strategic Asset Allocation
- Periodic reviews of Medium-Term Asset Allocation positioning.
- ESG, Climate Change and Responsible Investing reports

Other externally commissioned reports have been

- Strategic investment advice from Heuristics Investment Services.
- Valuation reporting from Deloitte
- Valuation reporting from Leadenhall
- Investment and product strategy reporting from Drew Walk

- c. APRA's Prudential Standard *SPS 521 – Conflicts of Interest* (SPS 521) requires the Trustee to ensure that its Conflicts Management Framework is comprehensively reviewed by operationally independent, appropriately trained and competent persons at least every three years.

In line with SPS 521, the Trustee commissioned:

- PwC to perform a review and provide a report titled "Equisuper Comprehensive Review of the Conflicts Management Framework" in 2017; and
- KPMG to perform a review and provide a report titled "Togethr Trustees Conflicts Management Framework – Comprehensive Review" in 2020.

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EQ92QW:

For each fund where more than 30 per cent of capital is managed by another entity, please complete the below table including:

- The name of the fund.
- The allocation of capital as a percentage of the total capital held by the fund.
- The allocation of capital of the total capital held by the fund.
- The entity managing the capital.
- Whether you are a shareholder in that entity.

Answer:

As at 26 June 2020

Fund	Allocation of fund capital		Managing entity	Shareholder
	%	\$		
Equisuper Cash Option (Accumulation)	57.8%	\$470.3 million	Antares Fixed Income	No
Equisuper Cash Option (Pension)	57.8%	\$111.6 million	Antares Fixed Income	No
Equisuper Fixed Interest Option (Accumulation)	42.1%	\$57.0 million	Macquarie Investment Management Limited	No
Equisuper Fixed Interest Option (Pension)	42.4%	\$17.7 million	Macquarie Investment Management Limited	No
Equisuper Fixed Interest Option (Accumulation)	49.4%	\$66.8 million	PIMCO Investment Management	No
Equisuper Fixed Interest Option (Pension)	49.9%	\$20.8 million	PIMCO Investment Management	No
Equisuper Australian	34.6%	\$51.4 million	Balanced Equity Management	No

Equities Options (Accumulation)				
Equisuper Australian Equities Options (Pension)	34.4%	\$9.4 million	Balanced Equity Management	No

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EQ93QW: If you do have capital managed by another entity that you are also a shareholder in, please identify how you manage conflicts of interest.

Answer:

Equipsuper is a shareholder in publicly listed companies that have fund management as part of their business, such as Macquarie and National Australia Bank that manage capital for Equipsuper.

Equipsuper bases its decision in selecting a fund manager through a process via the Manager Selection Policy which looks for four key characteristics in assessing managers for potential inclusion in the Fund's portfolio: Investment Philosophy, Investment Process, People and Performance.

This process also involves the input of JANA, Equipsuper's independent asset consultant. Equipsuper feels the clearly articulated aforementioned Process and Policy manages any perceived conflict that may arise from having a shareholding in an entity managing capital.

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SUPERANNUATION SECTOR**

Equip

EQ94QW: Please provide details of the following reduction to remuneration packages since 11 March 2020:

- a. Board members.
- b. The chief executive
- c. Executive management.

Answer:

There has been no reduction to the remuneration packages of staff since 11 March 2020. This includes Board members, the Chief Executive and Executive Management.

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Equip

EQ95QW Is the fund considering divestment from pure play fossil fuel producers in order to mitigate climate-related financial risks and to increase the cost of capital for those producers?

If not, how has the fund arrived at the conclusion that this approach would not be in members' best interests?

Answer:

Equip's approach to managing Environmental, Social and Governance (ESG) issues is outlined in the Fund's Responsible Investment Policy, Climate Change Position Statement, and Proxy Voting Policy. Each of those documents are available to Fund members and the public on the Responsible Investment page of the Fund's website:

[https://www.equipsuper.com.au/investments/our-investment-approach/environment-social-governance-\(esg\)](https://www.equipsuper.com.au/investments/our-investment-approach/environment-social-governance-(esg))

Although by regulation, the sole purpose of superannuation funds is to maximise retirement benefits of members, Equip is of the view that this can only be achieved responsibly. Equip recognises that climate change is a material systemic issue which presents foreseeable and actionable financial risks and opportunities for investors. The Fund seeks to assess and understand the investment implications of climate change, including both transition risk and physical risk.

In 2018 Equip asked its administrator, Mercer, to prepare an Environmental, Social and Governance (ESG) Assessment Report to provide Equip's Board and Management an analysis focused on ESG integration in line with industry best practice. This program of work included a review of climate change and carbon-related risks. Following on from this, in 2019, Equip developed a 2-year ESG Integration Roadmap to guide further actions on embedding ESG and climate change into investment decision-making processes.

Equip's approach to ESG matters is through engagement, collaboration, and active ownership. While the Trustee has an option to screen out (or divest) certain companies based on ESG factors, it is believed that engagement with and collaboration among the main stakeholders is the first step and the most effective way to address a range of ESG issues. This holistic approach has been adopted by the Fund and at this time, the Fund has not excluded pure play fossil fuel producers from its investments. Equip does not intend to divest from fossil fuels. We do not see divestment as a practical solution to climate change issues. Divestment would curtail the Fund's capability to engage with investees to assist in the required transition to a low carbon world and to enhance efficiency. It is not a practical solution for the following reasons:

- Engagement and collaboration are expected to produce better results for both the environment and stakeholders. If the Fund divests from pure play fossil fuel, the companies will be owned by investors who may not seek ESG improvements from those companies.

- The energy transformation underway will take several decades, relies significantly on further technological progress, and will require massive amounts of capital and government commitment.

Equip is of the view that reduction in fossil fuels can only occur when alternative energy is available and it is affordable. The Fund has taken this into account as part of its future asset allocation to invest in renewables.

Equisuper's joint venture with Catholic Super confirms this position with Catholic Super being among superannuation funds with the highest proportion of investments in renewables. The Fund is of the view that maximising members' retirement income responsibly using various ESG factors is what is in the best interest of the Funds' members.

We engage with our investees when issues on responsible investing (ESG) arise. We exercise this mostly through our engagement partners, and usually in collaboration with like-minded investors (such as other superannuation funds in Australia and other pension or sovereign funds globally). We engage with like companies through groups such as the Australian Council of Superannuation Investors Limited (ACSI) to ensure that the Fund continues to address ESG related risks appropriately.

We are of the view that there exists a correlation between the sustainability of investments in individual companies and their risk management frameworks. This includes exposure to climate change risk and environmental management. For example, a number of larger energy companies in which we invest in are among the biggest investors in renewable energy generation, including solar and wind. They recognise the climate change risks to their businesses, and they are taking action to ensure that their business models are resilient to the transition to low carbon.

Proxy voting is another important tool for encouraging responsible corporate behaviour and we take our proxy voting responsibilities seriously. In addition to governance issues, increasing shareholder led resolutions are focusing on environmental and social issues and we consider a range of information when deciding on voting positions for these types of resolutions. Our proxy voting policy and voting record are both available on our website.