

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

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

REST

REST136QON

Outcome of scenario testing of impact of actions on limiting carbon emissions.

Answer:

Working with our Investment Consultant, Rest undertook climate-related transition risk scenario analysis for the Fund, this used Rest Asset Allocation with Asset Class Benchmark composition. Two International Energy Agency (IEA) climate-related scenarios were used, as outlined below. It is important to note that these are not the only two scenarios the IEA makes available, and the IEA makes clear that none of the scenarios are preordained, all are possible.

1. **Sustainable Development Scenario (SDS)** is fully aligned with the Paris Agreement and models for a more aggressive and nearer term globally co-ordinated policy response which achieves net zero emissions by 2070 and a 66% probability of limiting the global average temperature rise to 1.8 °C above pre-industrial levels without large scale Negative Emission Technologies (NETS). With large scale NETS, consistent with the IPCC's Special report, this scenario sees a 50% chance of limiting increase to 1.5 degrees by 2100. This scenario assumes an ambitious path for policy and emissions technology development and anticipates a material increase in global carbon prices by 2030.
2. **Stated Policies Scenario (STEPS)**, a scenario which was previously known as New Policies Scenario (NPS), and which models a world where long-term global average temperature would surpass the Paris Agreement's goals. The IEA estimates could result in an increase in the range of 2.7°C with a 50% probability, or below 3.2 degrees with 66% probability relative to pre-industrial levels by 2100, which is not aligned with the 2015 Paris Agreement on climate change.

The **STEPS** scenario is best considered a business-as-usual scenario, with the **SDS** scenario a Paris Agreement aligned scenario. For the Rest Fund the high-level results were:

- Climate change and climate-related policy and technology developments are expected to impact on future investment returns
- An extended period of policy delay which leads to elevated market uncertainty and increased physical climate risk (**STEPS**) would be the most detrimental scenario for investor confidence and longer-term risk asset returns (to 2040)
- A near term and more aggressive policy response (**SDS**) would see intermediate returns negatively impacted more so in the near term to 2030, although is far more favourable for longer term returns (to 2040).

The outcome of this modelling demonstrated that and SDS or equivalent scenario is more favourable than the STEPS scenario for long term investment returns.

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Ms HAMMOND: The expenses of SIM were \$21 million compared with \$18 million in the previous year. What was the cause of that increase?

Answer:

SIM is a wholly owned subsidiary of Retail Employees Superannuation Trust. Under the Investment Management Agreement between these entities, SIM provides specified investment management services to Rest in relation to Cash, Fixed Income, Australian Equities, Property, Infrastructure, Credit, Private Equity and Asset Allocation/Overlays. SIM does not provide services to any third party.

SIM is a holder of an Australian Financial Services Licence and its annual audited financial statements are available publicly (through ASIC's registers).

The expenses of SIM include the following:

- Employment costs for staff employed to manage these portfolios and support staff
- Systems, data and professional services costs incurred in managing the portfolios and assisting in investment decision making
- General office costs

SIM is reimbursed for the costs it incurs through a management fee paid by Rest and this management fee is included in the total investment management fees disclosed in the Rest financial statements.

The increase in expenses from \$18 million in FY19 to \$21 million in FY20 relates to:

- Annual remuneration increases and staff related cost increases
- New roles appointed as part of capability build out of the Investment and Support Functions at SIM
- Increase in operating expenses as a result of growth in team and other general cost increases
- System improvements and additional data and information services to assist with risk management and investment decision making.

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Dr Mulino: Regarding early release, how many people cleared out their accounts entirely?

Answer:

Since the commencement of Temporary Early Release of Superannuation up to 2 December 2020, 21,364 members have had accounts closed as a result of Early Release.

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Mr FALINSKI: Are you shareholders of the Commonwealth Bank?

Mr Esposito: Yes, we are shareholders in all of the Australian banks via our Australian share exposures.

Mr FALINSKI: In terms of the votes at their AGMs, did you vote in accordance with ACSI's recommendations in each of those AGMs?

Mr Esposito: I will have to take that question on notice. I'm not aware.

Answer:

Rest is a member of the Australian Council of Superannuation Investors (ACSI) and utilises the ACSI Voting Alert Service. This service provides the industry with advice on voting decisions for listed investments. Rest also have a number of external investment managers, who may engage other advisers.

Rest may direct an investment manager to vote on a matter in a particular way, although will only do so where it is considered to be in the best interests of Rest's members. Rest considers that the advice of reputable and engaged proxy adviser is one component in ensuring Rest acts in the best interests of members.

For the Commonwealth Bank of Australia 2019 AGM there were seven resolutions. Rest voted in a manner consistent with the Commonwealth Bank of Australia Board recommendations and the ACSI recommendations, although investment managers will have conducted their own company engagements and research.

For the Commonwealth Bank of Australia 2020 AGM there were five resolutions of which Rest voted on all. Rest voted in a manner consistent with the Commonwealth Bank of Australia Board recommendations and the ACSI recommendations, although investment managers will have conducted their own company engagements and research.

Key metrics of voting decisions are periodically reported to Rest's Investment Committee. Rest does not publicly state any voting intentions. Rest publicly discloses all proxy voting records on our website at <https://rest.com.au/why-rest/about-rest/corporate-governance> For all Australian share voting in FY19, Rest did not align with ACSI for approximately 11% of the circa 4,100 resolutions.

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The employer representative bodies that nominate Directors to the Rest Board.

Answer:

Retail Council

Coles Group

Super Retail Group Ltd

Woolworths Group Ltd