



IOOF

IISL Responsible Investment Position Statement

April 2021

Purpose and Application

This Responsible Investment Position Statement (**Statement**) is part of Responsible Investment Framework and defines the role that responsible investment plays in the assessment, selection and monitoring process of externally appointed investment managers (**Managers**) and outlines the framework for identifying and managing Environmental, Social and Governance (**ESG**) impacts, risks and opportunities across number of Managed Investment Schemes (**Schemes**¹). The application of this Statement applies to the following entity:

- IOOF Investment Services Limited (**IISL**) in its capacity as Responsible Entity (**RE**) of number of Schemes.

This Statement applies to the securities of mainstream equities, property, fixed income, and cash asset classes in portfolios where a Manager is engaged through an investment management agreement (**IMA**). This is because methodologies and processes for evaluating ESG risks and opportunities are currently more developed in these asset classes than for alternative assets. Additionally, portfolio exposures to alternative assets are typically achieved via pooled investment vehicles, with pre-defined terms, as opposed to IMAs.

While the alternative asset class is not within the scope of this Statement, the intention over time is to develop and integrate an appropriate level of ESG due diligence for existing and prospective managers, reflective of the applicability of ESG considerations to the relevant sub-asset class and/or strategy.

Objectives

The application of this Statement assists the RE in meeting the following objectives:

- Achieving superior long-term investment outcomes for investors; and
- Seeking to understand and manage the social and environmental impacts of the investments to create a more sustainable footprint in our community.

What is Responsible Investment

Responsible Investment (RI) is an umbrella term used to describe methodologies that incorporate ESG issues into the analysis, selection and monitoring of investments.

There are a number of RI approaches:

- 1 **ESG Integration** – Systematic and explicit inclusion of ESG factors in the investment decision making process to improve investment outcomes;
- 2 **Active Ownership** – Engagement with companies (including via proxy voting) to improve investment outcomes;
- 3 **Sustainability Themed Investing** – Impact investing targeting areas which generate attractive returns with sustainability social improvement themes; and
- 4 **Exclusion** – Screening out companies or industries assessed to represent a long-term risk to returns due to negative ESG factors that cannot be mitigated via Integration, Active Ownership, or Themed investing.

The most widespread responsible investment practice is **ESG Integration** and is considered the most appropriate approach given the RE's objectives. All four approaches may be deployed as deemed appropriate. Exclusion is reserved for companies or industries where other approaches cannot reasonably be expected to achieve our objectives.

¹ Please refer to Appendices for a full list of Schemes.

RI differs from 'socially responsible' or 'ethical investing' in that all information is considered that could be material to investment outcomes and does not solely factor moral or ethical values.

IOOF Investment Division

The Chief Investment Officer (**CIO**), who leads the IOOF Investment Division, is responsible for the overall management of the IISL Schemes. A key objective is to build and preserve investors' wealth over the long term. RI is an important consideration in achieving this objective and is employed by assessing the ESG capabilities of the Managers engaged under an IMA.

The IOOF Investment Division completes the appropriate due diligence on all external investment managers, to ensure all ESG factors are considered in the evaluation process. All underlying Managers must be able to display they have the capability to identify risks and opportunities associated with ESG issues in their investment portfolios.

A range of processes have been introduced to existing Manager due diligence, selection and monitoring practices, to include an evaluation of each firm's ESG methodologies and capabilities. In-house analysis is supplemented by independent external research provided by experienced asset consultants such as Mercer Investments (Australia) Limited (**Mercer**), which analyse and rate Managers' ESG processes. The IOOF Investment Division utilises Mercer to engage with incumbent and prospective Managers and to evaluate the extent of integration of ESG criteria in their respective investment process.

What are ESG Factors?

ESG factors encompass a broad range of issues that may of themselves, or in combination, impact the risk profile and return characteristics of an investment. The following table shows some examples of areas covered under ESG:

Environmental (E)
<ul style="list-style-type: none"> Climate impact including greenhouse gas emissions; energy efficiency Air and water pollution Water scarcity/ management Biodiversity and site restoration
Social (S)
<ul style="list-style-type: none"> Human Capital management Employee relations and diversity Working conditions, including occupational health and safety Labour standards (including in the supply chain)
Governance (G)
<ul style="list-style-type: none"> Board structure, diversity and independence Executive remuneration (Short and long-term incentives) Bribery and corruption Anti-competitive behaviour Political lobbying and donations

Our Responsible Investments Beliefs

Responsible Investment Beliefs complement the RE's wider investment beliefs and seek to enhance decision making and generate investment returns. Three high level RI Beliefs have been identified:

Belief 1: ESG factors can be a source of opportunity and risk in the management of investment portfolios

- ESG factors can influence the risk profile and investment returns of portfolios over the long term.
- Good outcomes for investors are best achieved by ensuring the underlying managers selected to manage portfolios give appropriate consideration to ESG factors.
- As an asset owner, we recognise we have a responsibility to understand ESG risks and opportunities in the portfolios we manage.
- For asset owners, best practice Responsible Investment occurs through the Assessment, Selection and Monitoring of appointed managers. We, therefore, evaluate the capabilities and extent of ESG integration, for each manager within our portfolios.

Belief 2: Consideration of ESG factors assist in meeting long-term performance objectives

- Consideration of ESG factors, such as climate change, requires a long-term focus. This is consistent with core aspects of our overall investment philosophy that emphasises a long-term view.
- The impact of ESG issues on a firm's financial performance tend to occur gradually, over time. Identifying ESG factors which can impact investment outcomes encourages and supports long term thinking.
- Ensuring underlying managers give proper consideration to ESG factors within their portfolios is consistent with this investment belief.
- We believe traditional quantitative scoring of factors tends to give too much weight to historical investment performance and takes insufficient account of other tangible or intangible factors that could drive sustainable performance over the long term.

Belief 3: Proxy voting and company engagement can positively influence corporate behaviour

- As a significant shareholder we have an opportunity to influence good corporate governance and to encourage sustainable operating practices.
- We therefore have a responsibility to cast proxy votes, on behalf of our customers, to influence the corporate governance of the companies in which we invest. This is consistent with our objective of achieving long term superior financial outcomes for our customers and creating a sustainable footprint in our community via responsible investment activities.

These RI Beliefs will be regularly reviewed and, as best practice in this field continues to evolve, we will seek to enhance and continue to grow our processes.

Our ESG Integration Approach

The RE's approach to Responsible Investment is being progressively implemented. The following steps have been initiated as a means to embedding ESG factors as a key consideration within our investment process.

External Investment Managers

The IOOF Investment Division undertakes a formal assessment of each Manager's approach to the integration of ESG matters, when assessing, selecting and monitoring Managers and actively encourage these Managers to employ and enhance, where appropriate, their ESG integration practices.

The ESG credentials of prospective Managers are assessed within our Manager selection process. Only high-quality Managers with demonstrable skills in adding value in a risk-controlled manner are selected for inclusion in our portfolios.

Manager turnover is generally low, and our research efforts are focused on Manager monitoring where we examine and test each Manager's approach to considering ESG matters associated with security selection and overall management of the portfolio. This may include for example, exploring how the Manager:

- utilises ESG factors for idea generation;
- assesses the risks of political or regulatory change within a sector; and
- considers social or environmental risks and opportunities within a company's supply chain.

The following ESG clause has been included in all IMA's to require investment managers, where appropriate, to integrate ESG practices into their process in the IOOF MultiMix and MultiSeries product suites:

"The Manager is to use reasonable endeavours to identify and manage risks associated with ESG (Environmental, Social and Governance) as a part of the investment process. The ESG activities of the Manager, include engagement with Boards and management of investee companies and voting on shareholder resolutions in interest of shareholder value creation. The Manager will apply due care and diligence in considering Ethical, Environmental, Social and Governance matters in relation to an investment and the extent to which such matters may generate investment risks or opportunities."

Long-term Focus

The IOOF Investment Division encourages a long-term approach from underlying managers and do not focus on short-term performance. Rather, the IOOF Investment Division assesses and analyses Managers based on their investment style and require a consistent investment process. This allows the Portfolio Manager to look through short-term underperformance which may result from an investment style being out of favour.

Measurement and Reporting

ESG reporting may be requested from Managers to assist in monitoring their progress to integrate ESG consideration into their investment processes. There is an expectation that some Managers and asset classes will be less advanced in their reporting capabilities, however, these will be actively monitored.

Specialist ESG data and independent research is available, to assist Portfolio Managers to identify key ESG exposures at a strategy and aggregate portfolio level.

In-house analysis is supplemented with external research to assess and monitor the ESG profile and performance of Managers. These resources are also used to engage with Managers, to evaluate the extent of ESG integration in their portfolios and ensure risk is managed appropriately – now and into the future.

Active Ownership (Proxy Voting)

The IOOF Investment Division respects the stewardship obligations it holds for investors in the form of proxy votes and ensures these are exercised with care and diligence by the Managers and aligns with RE's RI beliefs.

The IOOF Investment Division operates an investment management model primarily using external investment Managers. Through IMAs, the RE has delegated their voting rights to these specialist Managers and obligate the Managers to vote in the best interests of the investors. However, the IOOF Investment Division reserves the right to direct how a Manager should vote on particular matters of interest to the RE and relevant to our RI beliefs.

In general, our underlying Managers are encouraged to vote on all resolutions. There are circumstances where voting is either not possible or not in the best interest of the investor. In keeping with Financial Services Council Standards, an explanation may be sought from the managers in circumstances where votes are either abstained from or not lodged.

The IOOF Investment Division also ensures proxy voting summary records are published on the relevant RE's website in the form and manner prescribed².

Engagement (Fixed Interest)

Fixed income markets are significantly larger than equity markets and as such provide fixed income investors with plenty of opportunities to have a positive environmental and social impact. The rise of thematic investing, such as green bonds, is providing fixed income investors with the ability to directly finance those projects that address climate change. Bonds have also been issued to exclusively fund projects deemed ocean friendly (blue bonds) as well as to fund projects in areas such as health and education (social bonds).

The biggest challenge facing fixed income investors, with regards to ESG, relates to engagement. Unlike equity shareholders, bondholders do not have formal engagement arrangements, such as the ability to vote proxies or raise shareholder resolutions.

² The reporting period for IISL proxy voting summary records will be for the period 1 July 2020 to 30 June 2021.

However, that does not mean that bondholders do not have a voice nor a platform to use that voice.

Governments and companies are frequent issuers in the debt capital markets and, via road shows, investor updates and one-on-one meetings, bondholders can engage with governments and corporations and agitate them to manage their ESG risks and opportunities in a positive manner. The IOOF Investment Division encourages our fixed income managers to engage debt issuers to improve their transparency around the key ESG factors that we consider relevant.

Responsible Investment in Passive and Systematic Portfolios

Index or passive managers are essentially long-term, and in some circumstance, near permanent investors given they are required to replicate an index. Unlike active managers, passive and some systematic managers are generally unable to take direct action and sell out of securities that demonstrate poor ESG characteristics.

Therefore, engagement and exercising ownership rights (proxy voting) is the primary mechanism for effecting RI for passive and some systematic managers. These are important activities that should be used to influence positive change.

The IOOF Investment Division evaluates the ESG capabilities of passive or index managers for the in-scope investments by:

- assessing and monitoring the extent of active ownership in the form of company engagement and demonstration of investment stewardship; and
- engaging with and actively encouraging managers to enhance their proxy voting practices.

Position on Climate Change, Controversial Holdings and Modern Slavery

Climate Change

Climate change may have direct and indirect financial implications for companies and therefore long-term shareholder returns. Climate change forms part of the overall RI approach.

Over time, the IOOF Investment Division will implement the following measures to support a more comprehensive understanding of carbon risk:

- require fund Managers to demonstrate and report on their approach to evaluating carbon risk within their portfolios and to disclose the investment processes to support their views;
- encourage fund Managers to improve disclosure of material climate change impacts, consistent with the recommendations of the Task Force on Climate Change Financial Disclosure (TCFD); and
- contribute to industry initiatives to increase awareness of climate change and the implications for investment decision making, by participating in

relevant industry forums and collaborative initiatives, such as the Investor Group on Climate Change.

Controversial Holdings

The IOOF Investment Division recognises there are a range of views with respect to controversial holdings such as gambling, alcohol, tobacco and weapons. We do not currently employ a screening approach to these types of investments, rather we require Managers use a combination of active engagement with corporates to effect change and, to have strong investment thesis on these types of investments.

Where particular stocks or industries are assessed to have negative ESG qualities representing long term risk to performance and these ESG issues cannot be mitigated via the RI approaches such as Integration, Active Ownership, or Themed investing, then the IISL Board may agree to exclude such companies or industries from certain asset classes.

The following sectors are currently listed for exclusion in IISL IMA's:

- Tobacco Manufacturers from equity, cash, fixed income, alternatives and property portfolios.

Modern Slavery

Consistent with RI Belief 1 that ESG factors can influence the risk profile and returns of portfolios over the long term, we recognise that the "social" component includes the importance of human capital management, working conditions and labour standards as potential risks in underlying investee companies and their supply chains.

The Australian Government introduced a modern slavery bill in November 2018 - Commonwealth Modern Slavery Act (2018). The Act forces companies of a certain size and revenue threshold to report on their own operations as well as their supply chains, and in the case of investors, the supply chains of underlying investee companies. There is also an expectation that companies who do not meet the minimum size/revenue levels will voluntarily report.

While there is no globally agreed definition of modern slavery, the identifying feature is the involuntary aspect of taking the job or accepting sub-standard working conditions, and a penalty or threat of penalty to prevent the individual from leaving the situation. Coercion can take many forms from physical or sexual violence to subtler means such as withholding wages or retaining identity documents, or the threat of denunciation to authorities.

With respect to the RI framework, this statement will only deal with Modern Slavery monitoring and reporting from an investment perspective. As detailed in the IOOF Modern Slavery Policy understanding the underlying investments made by the selected investment managers will continue to form a core part to understanding IOOF's Modern Slavery exposure. An annual Modern Slavery questionnaire will be disseminated for completion, providing IOOF with opportunities to further understand potential risk areas within its supply chain.

Appendix A – Retail Trusts

- IOOF MultiMix Capital Stable Trust
- IOOF MultiMix Conservative Trust
- IOOF MultiMix Moderate Trust
- IOOF MultiMix Balanced Growth Trust
- IOOF MultiMix Growth Trust
- IOOF MultiMix Cash Enhanced Trust
- IOOF MultiMix Diversified Fixed Interest Trust
- IOOF MultiMix Australian Shares Trust
- IOOF MultiMix International Shares Trust
- IOOF Capital Secure Trust
- IOOF Cash Management Trust
- IOOF Balanced Investor Trust
- IOOF Cash Management Trust
- IOOF MultiSeries 30
- IOOF MultiSeries 50
- IOOF MultiSeries 70
- IOOF MultiSeries 90
- Profile 45
- Profile 55
- Profile 65
- Profile 75
- Profile 85
- Profile 95
- Profile Australian Shares
- Profile International Shares
- Profile International Shares (Hedged)
- Specialist Income Fund
- Specialist Property Fund
- Specialist Dynamic Allocation Fund
- Specialist Australian Small Companies Fund
- Specialist Global Shares Fund
- Strategic Australian Equity Fund
- Strategic Cash Plus Fund
- Strategic Fixed Interest Fund
- Strategic International Equity Fund

Appendix B – Wholesale Trusts

- MultiMix Wholesale Australian Shares Trust
- MultiMix Wholesale International Shares Trust
- MultiMix Wholesale Australian Property Trust
- MultiMix Wholesale Defensive Equity Trust
- MultiMix Wholesale International Property Trust
- MultiMix Wholesale Diversified Fixed Interest Trust
- MultiMix Wholesale Alternative Debt Trust
- MultiMix Wholesale Alternative Equity Trust
- MIM Property Plus
- IOOF Income Trust
- Multi Series Wholesale Australian Equities Trust
- Multi Series Wholesale International Equities Trust
- Multi Series Wholesale Fixed Income Trust
- Wholesale International Core Equities – Hedged
- Wholesale International Core Equities
- Wholesale Australian Core Equities

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This Statement is current as at April 2021.