Responsible investment

IOOF's multi-manager investment management offering ensures ESG factors are considered in the investment process in order to protect and manage investments for the long term.

In 2018, the IOOF Investment Division developed a Responsible Investing Statement of Principles, with approval and commencement of the implementation of the principles having commenced in 2019.

The Statement defines the role that responsible investment plays in the assessment, selection and monitoring process of externally appointed managers in the multi-manager funds.

Furthermore, it outlines the framework for identifying and managing ESG impacts, risks and opportunities across the various funds we manage.

Environmental, Social, and Governance factors that form the basis of our statement are wide ranging and may have varying impacts on risk and return on our products. The following table shows some examples of areas covered under ESG:

Environmental (E)	Social (S)	Governance (G)
Climate impact including greenhouse gas emissions; energy efficiency	Human capital management	Board structure, diversity and independence
Air and water pollution	Employee relations and diversity	Executive remuneration (short and long term)
Water scarcity/management	Working conditions, including occupational health and safety	Bribery and corruption
Biodiversity and site restoration	Labour standards (including in the supply chain)	Anti-competitive behaviour
		Political lobbying and donations

A number of approaches can be taken in relation to ESG issues including:

- **Integration:** Inclusion of ESG factors in the investment decision making process to improve investment outcomes.
- **Active ownership:** Engage with companies (including via proxy voting) to improve investment outcomes.
- **Themed:** Impact investing targeting areas which generate attractive returns with sustainability and social improvement themes.
- **Exclusions:** Screen 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.

Integration is considered the most appropriate approach to responsible investing given our 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.

IOOF's multi-manager business has developed three core Responsible Investment Beliefs to provide focus and enhance decision making.

Belief 1:

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

- Environmental, Social and Governance (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 our 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 our 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.
- Underlying investment managers are best positioned to understand and influence long term investment outcomes through active proxy voting.

A range of processes have been introduced to existing manager due diligence, selection and monitoring practices, to include an evaluation of each fund manager's ESG methodologies and capabilities.

In house analysis is supplemented by independent external research provided by our asset consultant, which analyse and rate fund managers' ESG processes.

The Investment Division utilises its asset consultant to engage with incumbent and prospective managers and to evaluate the extent of integration of ESG criteria in their respective investment process.

Additionally, with the acquisition of the Pension and Investments (P&I) business from ANZ Wealth, who have adopted a similar Responsible Investment framework, we have inherited different approaches to managing and monitoring ESG risk, and as we integrate the two businesses, we will look to adopt the best practices of both.

For example, the SmartChoice product (P&I) is implemented passively and therefore engagement and proxy voting are the main ESG tools available, whilst OnePath and OptiMix products are closer to IOOF's multi-manager business.

The ex-P&I business has adopted a methodology of systematically analysing portfolios using third party ESG scores for its ESG Quality and Carbon Footprint and this will be progressively implemented across the IOOF multi-manager business.

This information assists the Investment Division to engage with external investment managers on ESG issues.

In 2019 the IOOF Investment Division modified Investment Management Agreements with the underlying fund managers to exclude tobacco manufacturing companies from the multi-manager products.

The Responsible Investing Statement of Principles allows for the exclusion of individual companies or sectors where the principle of engagement is unlikely to be successful in achieving Responsible Investing objectives.

In the case of tobacco, the engagement with management of tobacco manufacturers was viewed as unlikely to result in reducing long term investment risks specific to this sector that may reasonably be expected to emerge, due to the high proportion of total revenue generated by tobacco companies through the sale of tobacco products. Over the coming year it is expected that the ex-P&I products will also exclude tobacco.

Additionally, IOOF Investment Management Agreements with external fund managers contain a clause to integrate ESG practices into their investment process. These managers must now identify and manage risks and opportunities associated with ESG as part of their investment process. Similarly, this requirement will be progressively rolled out to the ex-P&I products.

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