

IOOF

What is responsible investing?

There's broad agreement across the asset management community that Environmental (E), Social (S) and Governance (G) factors can materially impact a company's operational and financial performance and, in turn, investor returns.

'Responsible investing' is shorthand for integrating the assessment of ESG factors into the investment process.

ESG factors can include:

Environmental	Social	Governance
 <ul style="list-style-type: none"> • Climate change • Water supply • Energy use • Waste management • Biodiversity • Mine site rehabilitation 	 <ul style="list-style-type: none"> • Human rights • Supply chains • Health and safety • Indigenous rights • Modern slavery 	 <ul style="list-style-type: none"> • Board independence • Executive Remuneration • Bribery and corruption • Shareholder rights • Human capital management

Drawing from extensive industry as well as academic evidence, responsible investing recognises companies that:

- ✓ act with an environmental duty of care
- ✓ have the support of communities in which they operate, and
- ✓ have transparent and robust governance processes and standards, are more likely to deliver sustainable long-term investment returns than those that fall short on these grounds.

Why does responsible investment make sense?

Intuitively too, responsible investing makes sense. If, for example, a company doesn't take into account physical risks such as risks arising from pollution (E), does not properly manage its human capital by underpaying workers (S), or has weak oversight of key management functions (G), it will likely experience adverse economic consequences at some point, which in turn will negatively impact its value.

Owing to all of this, we believe ESG factors matter when making investment decisions.

How do we* invest responsibly?

The Insignia Financial investment team, who manage IOOF branded investment solutions, use the services of many specialist investment managers to select individual investments for clients' portfolios. We expect active investment managers to consider all material factors, including ESG, that may impact investment performance.

Engagement with investment managers on ESG and climate change matters to ensure alignment with our [Responsible Investment Statement](#) is key as the investment team look to enhance and protect the long-term value of client portfolios.

Every six months, ESG scores and carbon intensity footprints are calculated on underlying portfolios and the results are reported to the Investment Management Committee. A risk assessment of managers is also undertaken as part of the Modern Slavery policy and action plan.

Some of the ways in which ESG risks can be managed include:

- avoiding an investment, or reducing the position size
- engagement with the company directly or via proxy voting to influence positive change, or
- as a last resort, divestment or exclusion.

Proxy voting

Shareholders can influence a company's operations, corporate governance and socially responsible activities by voting. Proxy voting is where a vote is cast on behalf of a shareholder.

While proxy voting for IOOF branded portfolios has been delegated to external managers, voting policies are assessed as part of our broader due diligence framework and to make sure that the approach considers both the best interests of investors, and the responsible investment principles. Read the [Proxy Voting Standard](#) for more information.

What does responsible investment look like in practice?

Case studies (current as at May 2022)



1. Berkshire Residential Investments

In 2021 the investment team appointed an investment manager, Berkshire, who specialises in US residential property investment. Part of Berkshire's investment strategy is to reduce the environmental footprint of properties they acquire through improved efficiency via their BerkshireTHRIVE ESG program. Making relatively simple efficiency improvements has resulted in meaningful gains. Among other examples, last year Berkshire reported that:

- updating lighting to LEDs and adding motion sensors to one of their buildings alone is projected to save 128,000 kWh per year, which is equivalent to the carbon captured by 118 acres of forest in one year¹; and
- water consumption and leaks in another property were reduced by updating all toilets and water fixtures. This is projected to save over 850,000 litres annually, equivalent to the water consumption of over 2,800 average households².



2. Royal London Asset Management

Another manager, Royal London Asset Management, has an investment strategy that includes 'hidden' ESG credentials that the market may be missing and that are potentially valuable. As an example, they include US firm Steel Dynamics Inc in the portfolio they manage for us, which has traditionally rated poorly with third-party ESG ratings agencies due to it being a steel production company.

Steel Dynamics make steel in a very different way to the majority of the industry. They use electric arc furnaces (not coal) to melt scrap steel (not iron ore) to make high quality steel, giving a current carbon intensity of about 15% of the global average. This is an example of the circular economy in practice and, in addition, Steel Dynamics plans to increase its use of renewable electricity to power production of its electric arc furnace mills to 30% by 2030³



IOOF is a member of the [Responsible Investment Association Australasia \(RIAA\)](#) a group that helps to support and inform our responsible investment policies.

By managing ESG risks we're delivering multiple benefits – reducing environmental pressure, supporting positive business change and driving towards our key goal of improved investment returns in the process.

To find out more about Responsible Investment across other entities in the broader Insignia Financial Group, including OnePath, visit the [Insignia Financial website](#).

1 United States Environmental Protection Agency Greenhouse Gas Equivalencies Calculator (acres of U.S. forests in one year).

2 USGS Water Q&A (https://www.usgs.gov/special-topic/water-science-school/science/water-qa-howmuch-water-do-i-use-home-each-day?qt-science_center_objects=0#qt-science_center_objects)

3 <https://sustainability.steeldynamics.com/valuing-our-environment/>

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