

Responsible Investment Position Statement

October 2015

BT Financial Group (“BTFG”) provides wealth management services to Australians across superannuation, insurance, investments and advice. Our mission is to help people prepare for their best financial future, forever. As the custodian of our customer’s assets, BTFG has a responsibility to protect and promote our customers’ financial interests and ensure the assets they entrust to BTFG continue to endure and prosper into the future. We believe that responsible investment is intrinsic to the provision of long-term value for our customers.

The purpose of this position statement is to articulate BTFG’s approach to responsible investing and to provide a framework for understanding and managing environmental, social and corporate governance (“ESG”) impacts, risks and opportunities across the portfolios within BTFG.

Our Responsible Investment Principles

1. *Consideration of ESG factors in the investments process can help drive positive financial outcomes.*

What we believe	What we do
<p>The active consideration of ESG factors in the investments analysis and decision making process enhances our ability to meet the long-term investment objectives of our funds, consistent with our fiduciary duty.</p> <p>Our fiduciary duty prescribes that we act in the best interest of our customers. BTFG believes that better investment outcomes are achieved when ESG considerations are factored in to investment decision-making.</p> <p>Our approach to ESG integration does not apply a specific screening process. ESG factors may be considered at a company, stock or sector level; may impact a country specifically; or be part of a global trend.</p> <p>When considering ESG factors in the investment process, BTFG is not seeking to take a moral or ethical stance on ESG issues. Instead, our approach is motivated by financial goals, aiming to create value and/or manage risk over varying time-frames.</p>	<ul style="list-style-type: none"> ➤ BTFG is a signatory to the Principles of Responsible Investment (“PRI”), a set of voluntary actions for incorporating ESG issues into mainstream analysis, investment decision-making and ownership practices. The Principles are available at www.unpri.org. ➤ We incorporate ESG issues into investment analysis and decision-making processes, and seek appropriate disclosure on ESG issues by the entities in which we invest. ➤ We formally assess our Fund Managers’ approach to ESG integration across our multi-manager and platforms businesses, and actively encourage managers to include ESG factors in their investment processes.

2. *We make solutions available to our customers to empower them to manage their own environmental and social impacts*

What this means	What we do
<p>BTFG is continually seeking to deepen our approach to responsible investing and implement a whole-of-fund approach to ESG integration. Whilst we look to manage this across all investment activities, we recognise that customers may seek options aligned to specific environmental or social themes.</p> <p>To this end, we provide access to range of products and services that assist our customers in implementing their own views on non-financial matters and how they are addressed in portfolios. This may be through the provision of education and research on investment platforms, or through core ESG funds that positively or negatively screen or tilt to a particular thematic.</p>	<ul style="list-style-type: none"> ➤ Provision of socially responsible and ethical funds, including: <ul style="list-style-type: none"> - BT Ethical Share Fund; and - BT Sustainable Share Fund. ➤ Provide ESG research to our customers. ➤ Undertake customer research to understand attitudes and expectations to responsible investing, and develop products to meet our customers' needs.

3. *As institutional investors and custodians of our customers' money, we have a responsibility to be active owners.*

What we believe	What we do
<p>As universal owners, we consider that active ownership and engagement with the companies in which we invest is fundamental in driving positive portfolio outcomes.</p> <p>As a substantial shareholder on behalf of our customers, BTFG recognises that we have an opportunity to influence the companies in which we invest through engagement and exercising voting rights, and therefore investment returns and risk over time.</p> <p>Where we have voting rights on behalf of customers, BTFG believes we have a responsibility to engage with companies to encourage good governance, transparency and sustainable business practices. In turn, the degree to which a company responds helps inform our view of the quality of the company's management.</p> <p>In regard to proxy voting on company resolutions, we believe we have responsibility to cast votes at company general and extraordinary meetings to influence the corporate governance of the companies in which we invest. Participation in the voting process ensures that we are working to protect our customers' interests.</p>	<ul style="list-style-type: none"> ➤ BTFG undertakes engagement at three levels: <ol style="list-style-type: none"> i. Where we exercise voting rights on securities on behalf of customers, through proxy voting and through engagement. ii. At a policy level, engaging with policy makers and participating in the work of industry bodies and collaborative investor initiatives to promote high industry standards and robust investment markets; and iii. With fund managers, to promote good practices on active ownership and ESG consistent with their size, resources, market position, location, investment philosophy and style.

4. Transparency counts.

What we believe	What we do
<p>We believe in being transparent in our approach and progress. This includes regular reporting on our Responsible Investment activity, and in response to specific stakeholder requests for information.</p> <p>We also believe in giving our customers clear information to enable them to make informed decisions. We provide ESG research to our customers, as well as specific detail on the carbon intensity of investment options within our retail and corporate superannuation funds.</p> <p>By measuring the carbon intensity of our funds we are able to better understand where risks may lie within our portfolios, and also provide our customers with greater clarity on the investments they hold.</p>	<ul style="list-style-type: none"> ➤ Report on our activities and progress towards implementing ESG principles via: <ul style="list-style-type: none"> - the Westpac Group Annual Sustainability Report and Customer Factpac; - the PRI framework; and - through external bodies where disclosure is made as part of industry ratings – for example, SuperRating’s Infinity Report, and the Asset Owners Disclosure Project’s Climate Index. ➤ Measure and disclose the carbon intensity of a range of investment portfolios.

Our approach to key issues

From time to time one or several ESG factors require specific attention. BTFG undertakes a range of activities to stay abreast of such issues, and maintains a watching brief on significant issues such as climate change, carbon, water, tobacco, human rights and payday lending. This helps to inform our approach and the products and services we may offer, now and in the future. It also keeps us informed of investment risks and opportunities.

We are also guided by Westpac’s approach and commitments to sensitive sectors as detailed in Group Position Statements. The full suite of positions is available on Westpac’s website, including the [Human Rights Position Statement and Action Plan](#) and the [Climate Change and Environment Position Statement](#).

As an institutional investor with a stake in the wider economy we believe that positive outcomes are a function of ESG risk management and company engagement, rather than blanket screening of certain types of investments. To this end, as a general principle, BTFG does not support blanket screening of investment opportunities on values-driven motives alone, and prefers instead to engage with the companies in which we invest with a view to working with boards and management to address material ESG issues.

We do, however, recognise and support customers’ preferences in relation to specific values-based investment preferences and, where possible, seek to offer a range of investment products and services to this end.

Climate Change

Climate change generally, and carbon specifically, is one key example of a significant issue. We recognise that there are significant environmental, social and economic benefits to limiting global

warming to two degrees Celsius above pre-industrial levels, while supporting greater resilience to the impacts of such a change. BTFG believes that supporting the transition to a less carbon intensive economy is vital if we are to position Australia for the challenges of the future. We are undertaking a range of activities to stay informed of the issue.

In our capacity as fiduciary, BTFG does not support limiting the investible universe (also referred to as screening) as a single approach to managing investment risk. However we are, and will continue to do so, considering avenues for measuring and managing climate change risk within portfolios including, for example, the potential consideration of selective screening, climate/carbon tilts, and thematic investment opportunities or a combination of any or all of these approaches.

We do recognise that customers may choose to limit their own fossil fuel exposures and, in line with this approach and our Responsible Investment Action Plan, we will make available an investment solution which manages climate related risks through screening.

Westpac has demonstrated strong commitment to managing environmental impacts and has detailed its approach in the Group's [Climate Change and Environment Position Statement](#). The principles described in the Position Statement are equally relevant for BTFG, and in particular Principle 1 (Managing environmental risk is also about managing financial risk) and Principle 6 (Transparency counts) help define our approach.

BTFG is committed to measuring and disclosing carbon exposures across our portfolios. In recent years we have taken steps to understand the carbon intensity of a number of listed equity portfolios by analysing the carbon footprints of the portfolios relative to globally recognised benchmark indices.

Our approach is to build upon this analysis, seeking to understand the nature of carbon risk in detail, the scenarios over which the risk could result in variability in the portfolios returns and to work with our investment managers and consultants to manage this risk where appropriate. We will also make this information available to customers and stakeholders as we determine the best way to do so.

Context

This position statement has been developed in line with existing Westpac Group policies and statements, including:

- Westpac Group 'Principles For Doing Business'
- Westpac Group Environment policy
- Westpac Group Sustainability Risk Management Framework
- BTFG Investment Governance Policy
- BT My Super ESG policy
- BT Superannuation Proxy Voting Policy
- Advance Proxy Voting Policy
- Advance Sustainable Investment Philosophy and Beliefs

Definition of ESG

ESG is the term used by capital markets and investors to refer to a range of non-financial performance indicators of companies. Guidance as to the broad nature of some of these factors follows:

Typical ESG Factors		
Environmental	Social	Governance
Air and water pollution	Diversity and equal opportunities	Anti-competitive behaviour
Biodiversity	Employee engagement	Audit committee structure
Climate Change	Government and community engagement	Board composition
Deforestation	Human rights	Bribery and corruption
Energy efficiency	Indigenous rights	Compliance
Waste management	Labour standards	Executive remuneration
Water scarcity	Product safety and liability	Stakeholder engagement

ESG risk is the risk to a Fund’s performance and ability to meet its long term objectives of maximising return for a given level of risk, due to failure to recognise or address material existing or emerging environmental, social or governance factors.

The term ‘ESG integration’ refers to the activities undertaken to protect or enhance value and/or manage risks through taking a broader, more comprehensive approach to investment analysis, decision-making and engagement.

ESG integration across our businesses

i. ESG integration in a fund of fund multi-manager context

In the context of BTFG’s multi-manager investment strategy, ESG incorporation and engagement is via the selection, appointment and ongoing monitoring of external managers. The level of ESG integration and individual investment manager capabilities forms a part of our selection process. We expect our investment managers to include ESG factors in their investment processes.

We undertake a formal assessment of a manager’s approach to integration of ESG, in addition to ongoing dialogue around ESG issues. The ESG credentials of newly proposed and shortlisted managers are reviewed and considered in our manager selection and review process. BTFG is also committed to practicing active ownership and to working with managers to ensure voting rights are exercised appropriately.

ii. ESG integration in a platforms context

BTFG’s platforms business provides open architecture investment platforms that give customers access to managed funds, listed securities, term deposits and other financial services. BTFG’s Fund Manager Governance team (FMG) is responsible for the oversight and monitoring of funds managers on the platforms, and makes recommendations on the selection, closure and removal of assets on the platform.

In an open architecture environment, ESG integration is concentrated on the fund manager selection and monitoring process, on engagement and active ownership, and through the provision of ESG research and tools.

In regard to fund manager selection and monitoring, BTFG undertakes an assessment of a manager's approach to ESG integration and actively encourages managers on the platform to become PRI signatories (if they have not yet done so).

The FMG team also undertakes engagement and proxy voting at a fund level, seeking to best represent our customers' interests through regular review meetings with fund managers and exercising the voting rights of our clients, especially with regards to suspended assets, and managed funds on the fund watch list.

iii. ESG integration in Advice research

The responsibility for researching and approving funds for the Bank-owned financial planning and BT Group Licensee businesses sits with the Advice Research team. The aim of Research is to deliver both strategic investment and product related advice and solutions to our financial planning businesses. The team covers four areas of research:

- managed funds
- direct equities
- structured and alternative investments
- product related research (e.g. insurance and margin lending)

As part of the research process the team will consider an investment manager's approach to ESG integration as one of many considerations. The Advice business is committed to raising the focus on ESG integration with investment managers, and will embed an approach that places increasing emphasis on demonstrated integration. As part of this process, the Advice Research team will also track whether an investment manager is a PRI signatory, and will encourage all managers to become signatories (if they have not yet done so).

Our approach to active ownership

i. Collaborative engagement and active ownership

BTFG's priority in ESG engagement is improved long term investment outcomes for customers. Through third-party service providers, BTFG accesses a collaborative engagement service that researches, identifies and prioritises ESG issues, and that acts for a collective of institutional investors in seeking assurances and/or behavioural changes from companies. Where appropriate, BTFG may augment this with our own engagement initiatives.

ii. Proxy voting

For BTFG's multi-manager funds, voting is undertaken by the underlying investment managers and BTFG monitors this through a reporting process. BTFG reserves the right and may, on occasion, direct external managers on how votes should be cast.

In BT's platforms businesses, voting is undertaken at a Fund Manager level. Unit-holder voting is a central part of FMG's function given the importance we attach to the voting rights of our clients. In some cases this requires FMG to undertake strategic voting in support of a particular issue or to bring about change in the governance of a fund. Issues that we regularly vote on include changes in Responsible Entity (RE), fund constitution, benchmarks, fees, fund mergers/ demergers and buy-backs.

FMG have clear unitholder voting procedures in place that require consideration of key resolutions by notification, engagement, written recommendations, and approval. Material resolutions at unitholder meetings are then voted on by proxy or in person with results communicated to all relevant parties.

As stated in the [BT Superannuation Proxy Voting Policy](#), and consistent with FSC Standard 13, voting records for funds covered by BT's Responsible Superannuation Entities will be published annually on our website at www.btf.com.au. We will continue work to broaden our disclosure practices to ensure that in time all voting decisions referred to in this policy are publically disclosed.

Research and activities that keep us informed

BTFG believes that in order to stay abreast of best practice and trends, and in order to influence and lead policy, it is important to be actively involved in a range of industry groups and to access information from leaders in ESG research.

BTFG is an active member of the Responsible Investment Association of Australasia (RIAA), the Investor Group on Climate Change, Australia/New Zealand (IGCC), and the UNEP-FI Portfolio Carbon Initiative. We actively participate in a number of ESG-related organisations.

We access research from numerous sources including dedicated ESG organisations such as Regnan, broker research houses, and industry groups such as IGCC, RIAA, The Climate Institute and the CDP (formerly Carbon Disclosure Project).

Governance

Ultimate responsibility for our Responsible Investment performance rests with our CEO and Senior Management Team. Our investment management team, led by the Chief Investment Officer (CIO), has responsibility for the day-to-day integration and management of ESG impacts, risks and opportunities to the investment portfolios. Investment professionals with specialist knowledge of ESG issues and risks are employed within the investment team.

Position statement review

This position statement is reviewed every two years or more frequently as required to ensure that it remains current.