

SUSTAINABILITY COVENANT

May 2003

Between Environment Protection Authority and VicSuper Pty. Ltd. (VicSuper)

under section 49AA of the *Environment Protection Act 1970*

BACKGROUND INFORMATION

About this sustainability covenant

Simply, this sustainability covenant is an agreement between the Environment Protection Authority Victoria and VicSuper to work together to protect the environment and to contribute to a more sustainable Victoria.

VicSuper's approach to sustainability

Broadly, sustainability is about meeting the needs of the present without compromising the ability of future generations to meet their needs¹. The overall objective of sustainability is quality of life for both current and future generations worldwide.

VicSuper recognises that there are a number of measures that have to be taken to advance towards a more sustainable society. Supportive Government policy and legislative frameworks are integral to the foundations of a sustainable society. Good corporate citizenship, incorporating protection of the environment, transparency and compliance, a balanced consideration of the interests of all stakeholders and a commitment to innovation that will lead to more effective use of human and natural resources is also required.

Companies that display these superior standards of corporate governance through the integration of social, environmental and economic principles into all decision support systems are more likely to increase their long term shareholder value through better management of business risk and opportunities.

The financial services industry has the opportunity to enable the community to direct its savings into productive investments that generate acceptable long term returns and contribute to sustainable economic growth necessary for improving quality of life for everyone. In this way VicSuper, as a part of the financial services industry, can have a positive impact on society and the environment that reaches far beyond the impact of its own operations.

¹ "Our Common Future", World Commission on Environment and Development, April 1987.



because this is our home



VICSUPER SUSTAINABILITY COVENANT

SUSTAINABILITY COVENANT

This voluntary SUSTAINABILITY COVENANT is a statutory agreement under section 49AA of the *Environment Protection Act 1970* made on the day of Friday 16 May, 2003.

Between:

Environment Protection Authority (“EPA”) of 40 City Road, Southbank in the State of Victoria;

-and-

VicSuper Pty Ltd ABN 69 087 619 412 (“VicSuper”) of 90 Collins Street Melbourne in the State of Victoria

In which:

VicSuper undertakes to increase the efficiency with which it uses resources to produce its products and services and reduce the ecological and social impact of those products and services.

Sustainability principles will be applied to internal operations, member services such as superannuation advice, administration, communications and education, and to professional relationships and the supply chain.

EPA is of the opinion that this sustainability covenant is likely to be effective in increasing the resource use efficiency and reducing the ecological impact of the superannuation industry and as such is a signatory to this sustainability covenant.

1. About the parties

VicSuper

VicSuper is corporate trustee of VicSuper Fund, one of Australia's largest regulated superannuation

funds with more than 170,000 members and over \$1.6 billion in assets at the commencement of this covenant. VicSuper provides members with a wide selection of investment choices². Members can choose the investment option or mix of options that are best suited to maximise growth in their superannuation benefit for the degree of risk that they are prepared to take in terms of the rise and fall of annual investment returns.

VicSuper Fund is regulated by the Australian Prudential Regulation Authority under the Superannuation Industry (Supervision) Act 1993 (C'wealth) which govern the majority of superannuation funds in Australia.

VicSuper Fund is a public offer fund which means that any person in Australia eligible to join a superannuation fund may join VicSuper's public offer superannuation benefit plans. In addition any Australian employer may become a participating employer of VicSuper Fund and contribute the compulsory superannuation guarantee on behalf of their employees to the Fund.

A trust deed sets out the rights and entitlements of VicSuper Fund members. VicSuper has four employer-appointed directors and four member-

² VicSuper offers members the choice of 7 investment strategies;

Cash

- 100% income assets

Capital Secure (from 1 July 2003)

- 80% income assets, 20% growth assets

Capital Stable

- 60% income assets, 40% growth assets

Balanced

- 40% income assets, 60% growth assets

Growth

- 20%, income assets, 80% growth assets

Equity Growth

- 100% growth assets

Equity Growth Sustainability

- 100% growth assets

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elected directors. All decisions require a two-thirds majority. The eight directors are also shareholders in the company, each holding one \$1 share. No profits of the company can be distributed to the shareholders under the provisions of the company's constitution. There are no other shareholders.

All decisions made by VicSuper for investing the assets of VicSuper Fund are based on the objective of generating the best risk adjusted investment returns over the long term for members.

Sustainability investing is an investment approach, amongst others, that VicSuper believes will add value to members' retirement savings over the long term. For example, an increasing amount of research indicates that companies that base their strategies on sustainability principles will provide better long-term shareholder value.³

VicSuper invests 10% of the listed equity portfolio of the Capital Secure, Capital Stable, Balanced, Growth and Equity Growth member investment choice options of VicSuper Fund in major Australian and international companies that rate as sustainability leaders in their industry sector. In addition, members have the choice to invest up to 100% of their superannuation in the Equity Growth Sustainability Option which has a 100% allocation to investment in Australian and international companies rated as sustainability leaders.

In conjunction with integrating sustainability into investment decisions, VicSuper incorporates sustainability principles into its internal operations and operating decisions. A staff sustainability group, with representation from each key operating area, provides a central reference point for staff and

initiates and promotes VicSuper's operational sustainability programs such as recycling, paper and energy usage and community involvement.

Environment Protection Authority

The Environment Protection Authority (EPA) has a charter to protect the Victorian environment. EPA works alongside the community to achieve its aims, involving and empowering individuals, communities and businesses, encouraging them to take shared responsibility and action. EPA's task as Victoria's environmental watchdog is to help establish environmental benchmarks, report on progress and alert the community when environmental quality is threatened.

EPA operates having regard to the principles of environment protection identified in the *Environment Protection Act 1970*. These principles balance integrated sustainable economic growth objectives with social development and environmental stewardship. In particular, these principles reflect the integration of triple bottom line approaches into EPA's decision making.

As environmental issues have increasingly driven commercial risks and opportunities in the financial services sector, the United Nations Environment Programme established the UNEP Finance Initiative (UNEP FI) in 1992 to promote sustainable development and environmentally sound business practices across the finance sector. Under a Memorandum of Understanding with UNEP FI, EPA co-ordinates and promotes UNEP's Finance Initiative activities in Australasia.

³ Study conducted by KPMG Environmental Consulting in cooperation with the University of Amsterdam

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In line with this and with the growth in the range of investments taking into account social, environmental and ethical factors, the superannuation industry is seen as a key avenue for raising awareness of sustainability issues within the finance sector. The take up of this investment style by leaders in the industry and the growing acknowledgment that the funds themselves should examine their own environmental and social impacts means that covenants with organisations such as VicSuper, in non traditional areas of environmental protection and sustainability awareness, are expected to become more common.

The magnitude of improvement that can be achieved through a holistic approach to environmental management is far greater than that which can be achieved through sole reliance on traditional point source management of environmental impacts. As such EPA is committed to pursuing sustainability covenants as a means to help Victoria move forward towards its sustainability goals. A sustainability covenant empowers VicSuper to drive and shape its own sustainability agenda in a public forum. It also enables EPA to statutorily recognise VicSuper's environmental and sustainability leadership.

2. Aim of the covenant

This sustainability covenant is entered into between VicSuper and EPA to:

- Provide statutory recognition to the leadership VicSuper is displaying in the superannuation industry through its sustainability program;
- Put in place a framework to enable VicSuper to continue to maximise current sustainability

practices and future sustainability opportunities; and

- Encourage further developments in this area and thereby assist in moving the rest of the superannuation industry further towards best sustainability practices and products.

3. Life of the covenant

The parties have agreed that this sustainability covenant will operate for a period of two years from the date of this agreement. Following the completion of this two year period, a three month formal review will be conducted, as specified in the Review and Reporting sections of this document. As part of the formal review period, the parties agree to examine the need for a further covenant, including whether this covenant should be amended or a new covenant established. If the parties agree to establish a new covenant, it would commence at a time agreeable to both parties.

4. Management of the covenant

The following framework for decision-making and management of the covenant has been agreed between the parties.

The vehicle through which responsibility for management of the covenant is discharged is via a steering committee. The committee is chaired by EPA and comprises one other EPA staff member and two VicSuper staff members. The steering committee undertakes to report and make recommendations on progress of the covenant to both the VicSuper Board and EPA Chairman.

EPA is accountable and responsible for the commitments made by EPA in this agreement.

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VicSuper is accountable and responsible for the commitments made by VicSuper in this agreement. However, this covenant is not intended to require or result in VicSuper or the directors of VicSuper breaching their fiduciary, equitable or statutory duties, particularly the requirements of the Corporations Act 2001, the Superannuation Industry (Supervision) Act 1993, VicSuper's Instrument of Approval and the VicSuper Fund's Trust Deed. To the extent that any of the commitments in this covenant would, in the opinion of VicSuper, cause it to breach any of its fiduciary, equitable or statutory duties, VicSuper does not have to perform that commitment.

EPA reserves the right to withdraw from this sustainability covenant if, in the opinion of EPA, the covenant is no longer effective in increasing the resource use efficiency, or reducing the ecological impact of VicSuper.

This covenant is entirely voluntary and, despite any commitment given in this covenant, VicSuper can withdraw at any time upon giving notice to the EPA.

In the event that a termination clause looks likely to be activated, both parties agree to instigate discussions about why this might have to occur.

Further detail on the management of this covenant can be found in the Review and Reporting sections of this covenant.

5. VicSuper's stakeholders

The stakeholders defined below are VicSuper's key stakeholders. VicSuper's actions affect these stakeholders directly or indirectly, both in impact and influence. VicSuper's commitments in this sustainability covenant involve these stakeholders.

VicSuper's key stakeholders are:

Members and participating employers

VicSuper has more than 170,000 members and approximately 4,000 participating employers at the commencement of this covenant. Members are defined as people who have a superannuation account with VicSuper. Participating employers are employers who have signed a participating employer agreement and whose staff, therefore, are able to direct their employer superannuation guarantee contributions to VicSuper.

Industrial representatives

Industrial representatives are elected officers and staff of unions that represent the employment interests of many of VicSuper Fund members.

Fund managers, asset consultants and investment advisers

Fund managers, asset consultants and investment advisers provide strategic investment advice to VicSuper and/or implementation services for the investment of the assets of the Fund.

Investee companies and issuers of debt securities

Investee companies are the companies VicSuper invests in on behalf of members. Issuers of debt securities which VicSuper may invest in on behalf of members, are sovereign states and companies.

Suppliers and professional associates

VicSuper's suppliers are mainly companies engaged by VicSuper to provide a product and/or service to VicSuper. Professional associates include VicSuper's industry peers and other professional organisations and individuals VicSuper has a relationship with.

Staff and their families

VicSuper staff are integral to the everyday running of VicSuper. VicSuper recognises the importance of family in the lives of its staff.

The broader community

The broader community is the general population locally within the State, nationally and globally that are both directly and indirectly affected by VicSuper's activities.

6. VicSuper's Commitments

VicSuper recognises that actions are not isolated in their impact. An economic decision such as choosing a new company for investment also has indirect social and environmental implications through the operations of the investee company. Sustainability is about the big picture. It is about recognising that sustained economic growth cannot be achieved without ensuring the protection and promotion of environmental and social health.

To this end, VicSuper has undertaken sustainability as its central operating principle, recognising that all decisions will impact on the economic, social and environmental performance of the Fund, as defined below:

Economic performance

VicSuper's economic performance concerns the economic and financial outcomes of its operations. This includes the efficient and effective allocation of resources to achieve operation plan outcomes, the investment returns achieved on Fund investments, the use of technology and innovation in service delivery and the overall governance of the Fund and Trustee responsibilities.

Social performance

VicSuper's social performance concerns the impact of its operations on members and participating employers, suppliers and professional associates, staff and their families, and the broader community. This includes the delivery of valued superannuation services to members and employers, the development and enhancement of those services, the effective allocation and development of VicSuper staff and VicSuper's involvement in the community.

Environmental performance

VicSuper's environmental performance concerns the direct and indirect ecological impact of its operations, stemming from its efficiency and effectiveness in allocating natural resources. Areas of environmental performance addressed by VicSuper include waste to landfill, recycling, energy and paper use, transport and greenhouse gas emissions.

VicSuper has developed a number of commitments to ensure the organisation performs successfully in all three sustainability performance dimensions. VicSuper has formed these commitments, and proposed actions to achieve the commitments, in an effort to ensure:

sustained growth of the Fund, and
long-term security of member investments
through better management of risks and opportunities, and a more holistic approach to decision-making.

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| Commitments | Proposed actions |
|--|---|
| <p>Integrate sustainability principles into investment options and administration</p> | <ul style="list-style-type: none"> • Monitor the sustainability investment strategy for listed equities. • Partner VicSuper’s appointed property investment manager to incorporate sustainability practices into the management of the property portfolio of VicSuper Fund. • Assess opportunities for innovative investment in the property asset sector. Examples of this could include reforestation schemes and affordable housing. • Conduct annual or more frequent meetings with all VicSuper fund managers and asset consultants regarding progress of the integration of sustainability into investment portfolios. • Promote and debate sustainability investment strategies in industry forums and publications. • Assess opportunities for integrating sustainability criteria into other asset classes including private equity. • Investigate ways to engage with investee companies, either directly or through an intermediary, to open dialogue on sustainability principles as a matter of superior corporate governance. • Implement the integration of social, environmental and economic principles into all management and trustee decision-support systems. • Monitor investee companies for opportunities to include and/or extend the implementation of sustainability principles into business strategies. • Establish VicSuper Advice Centres in regional Victoria. Ensure VicSuper Advice Centres are ‘sustainable’ work sites, incorporating where possible the green building principles fostered by the Australian Conservation Foundation. • Effectively use and remain up to date with changes in innovative technology that contribute to more sustainable |

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| Commitments | Proposed actions |
|---|---|
| | <p>practices in all VicSuper operations.</p> <ul style="list-style-type: none"> • Maintain and monitor the effectiveness of VicSuper’s corporate governance framework. |
| <p>Integrate sustainability principles into VicSuper policies and supplier contracts</p> | <ul style="list-style-type: none"> • Update all policies to integrate sustainability principles • Incorporate minimum sustainability criteria expected from suppliers and their business operations into all business contracts • Develop policies that incorporate sustainability principles into the selection criteria for appointing and renewing contracts with fund managers and asset consultants. • Ensure that full consideration is given to the effect on staff and their families, and that staff consultation is continued, in the development and operation of sustainability and superannuation services and associated policies and procedures, and all other relevant strategic and operational decisions. • Ensure high occupational health and safety standards are maintained at VicSuper through ongoing staff communication and education. |
| <p>Conduct regular internal and external sustainability reporting</p> | <ul style="list-style-type: none"> • Evolve the Monthly Operating Plan Report to Trustees to a sustainability format – including reporting on economic, social and environmental performance. • Report on sustainability activities and issues to staff at every monthly staff meeting. • Maintain VicSuper’s membership of the UNEP FI program. • Work closely with the UNEP FI and the UNEP FI Australasian Advisory Committee on Operational Management and Reporting to develop sustainability indicators for reporting by the finance sector. • Research methods for incorporating all aspects of sustainability reporting into current annual member and participating employer communications. |

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| Commitments | Proposed actions |
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| <p>Increase VicSuper’s level of community involvement</p> | <ul style="list-style-type: none"> • Prepare a policy establishing guidelines for community involvement • Establish long-term partnerships with community organisations, including those in regional areas. • Integrate community involvement into staff training and development. Develop programs that provide members and participating employers the opportunity to become involved in sustainability initiatives in the community |
| <p>Provide regular and relevant stakeholder communication and education</p> | <ul style="list-style-type: none"> • Continue promoting sustainability to staff and providing education through the staff sustainability group FROGS (Focussed Recruits of Global Sustainability) and other avenues of communication. • As part of continued education about superannuation as a vehicle for long term investment and retirement planning, continue to regularly communicate with staff, members and participating employers on sustainability at VicSuper, sustainability investing and sustainability in general – extending this communication to all stakeholders. • Undertake research to identify a baseline level of awareness of sustainability amongst members and monitor changes in awareness levels over time. • Regularly include relevant articles on sustainability issues in written member communication. • Develop specialty sustainability presentations for VicSuper’s superannuation advisers. • Integrate sustainability education into all VicSuper superannuation adviser presentations. • Develop methods to communicate sustainability principles to other stakeholders such as suppliers and professional associates. • Assist suppliers and professional associates with sustainability queries. |

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| Commitments | Proposed actions |
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| | <ul style="list-style-type: none"> • Speak at industry and related conferences and participate and provide representation in other relevant forums • Place relevant articles in industry publications. • Meet with industrial representatives on an annual basis to share ideas on sustainability issues and progress. • Include sustainability education in staff induction programs. • Continue informing staff on sustainability developments. • Provide education through the staff sustainability group FROGS (Focussed Recruits of Global Sustainability). |
| <p>Provide avenues for the provision of information on corporate sustainability practices to the broader community</p> | <ul style="list-style-type: none"> • Ensure up to date and relevant sustainability information is available on the VicSuper website. • Ensure VicSuper people resources are made available to answer any queries on sustainability. • Provide information about sustainability in communications in the public domain. • Be a readily accessible resource for sustainability information. • Provide information about sustainability covenants in the public domain. This may be done jointly with EPA. |
| <p>Reduce solid waste to landfill and increase recycling rates</p> | <ul style="list-style-type: none"> • Maintain and improve the recycling system involving paper, cardboard, organic waste, glass, plastic and aluminium. • Perform quarterly waste audits to ensure the recycling system is effective. • Maintain commitments as an accredited member of Waste Wise. |
| <p>Reduce paper usage and increase recycled and or/sustainably produced paper stock</p> | <ul style="list-style-type: none"> • Convert all office paper to recycled and/or certified sustainably produced stock. • Convert all paper used for external communications to recycled and/or sustainably produced stock. • Phase in 'paper minimisation' devices such as duplexing |

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| Commitments | Proposed actions |
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| | <p>units on all printers and photocopiers, and provide paper minimisation training to staff.</p> <ul style="list-style-type: none"> Investigate options for internet-based publications to supplement some paper-based publications. |
| Reduce greenhouse gas emissions | <ul style="list-style-type: none"> Reduce energy use through installation of energy saving devices/initiatives such as sensor lights in offices. Assess practices that can reduce the amount of staff kilometres travelled in the provision of superannuation services. Investigate other greenhouse gas emission reduction opportunities such as carbon offset programs. |

7. EPA makes the following commitments:

In partnering VicSuper in this sustainability covenant, EPA will undertake a number of commitments. Examples of some of the actions that EPA may undertake to achieve these commitments can be found in the table below.

| Commitments | Proposed Actions |
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| <p>Publicise the leadership that VicSuper has shown and reinforce the positive benefits of becoming a signatory to a sustainability covenant.</p> | <ul style="list-style-type: none"> Ensure up to date and relevant information about sustainability covenants is available on the EPA website. Ensure EPA people resources are made available to answer any queries on sustainability covenants. Be a readily accessible resource for sustainability information. Provide information about sustainability covenants in the public domain. This may be done jointly with VicSuper. Publicise with the assistance of VicSuper the concept of sustainability covenants in industry forums and publications. Facilitate discussion and sharing of information with other sustainability covenant signatories. Work with VicSuper to make available regular updates for EPA staff on VicSuper's sustainability approach. |

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| Commitments | Proposed Actions |
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| <p>Continue to support the superannuation industry as it increasingly incorporates sustainability techniques into its investment methodologies.</p> | <ul style="list-style-type: none"> • Publicise sustainability programs that VicSuper is working on. • Publicise sustainability programs that other superannuation funds or asset management groups are working on. • Help publicise details of programs that market leading investee companies are adopting. |
| <p>Assist the sustainability staff working within VicSuper.</p> | <ul style="list-style-type: none"> • Continue to assist VicSuper with their internal environmental management program. • Continue to share with VicSuper any information received from overseas organisations via its connection with UNEP FI on best practice methodologies and programs being used. • Make available good news stories/anecdotes detailing the success of office based sustainability programs similar to those being implemented at VicSuper. • Assist VicSuper in completing the trial measurement of its Ecological Footprint. • Instigate regular meetings with VicSuper staff where EPA is able to assist with any internal environmental management issues that VicSuper may be facing. |
| <p>Increase awareness within Government and other organisations of the leadership that VicSuper is showing in the sustainability area.</p> | <ul style="list-style-type: none"> • Investigate options to involve other parts of Government (eg: SEAV, EcoRecycle Victoria, Department of Innovation Industry and Regional Development, Department of Sustainability and Environment) to provide assistance in expanding investment opportunities for VicSuper. • Facilitate discussions/information sessions with other government departments and potential VicSuper members about sustainability. • Facilitate discussions with organisations such as ACF that have successfully moved to a ‘green building’. |
| <p>Co-Ordinate and promote the UNEP FI Programme in Australasia to which VicSuper is a signatory.</p> | <ul style="list-style-type: none"> • Continue to publicise the benefits of the UNEP FI Programme in Australasia. • Publish and distribute the regular UNEP FI newsletters. |

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| Commitments | Proposed Actions |
|-------------|--|
| | <ul style="list-style-type: none"> Chair regular meeting of the UNEP FI Australasian advisory committees. |

8. Review

The parties commit to undertaking an intermediate review at the end of year 1 to discuss progress made in meeting the commitments under this sustainability covenant. In addition, the Steering Committee will meet on a quarterly basis. These quarterly meetings are intended to be an informal look at the progress of the commitments of both parties.

At the end of the first year, EPA and VicSuper will jointly assess progress of the commitments identifying where attention needs to be focussed and whether new sustainability developments should be considered for incorporation into the covenant.

In assessing progress against the commitments under this sustainability covenant, the parties agree to develop performance reporting to measure performance against a set of baseline data.

A full review will also be undertaken at the end of year 2. A report would incorporate detail from the year 1 review, the activities that had been undertaken during year 2, and recommendation for continuation of the covenant.

9. Reporting

Following the formal review at the end of year 2, the parties commit to the following reporting procedures.

The parties will:

- Conduct a workshop with EPA and VicSuper CEOs, EPA executive members and VicSuper directors and EPA and VicSuper staff to discuss what benefits both parties have gained from participating in the covenant.
- Prepare a report containing a short summary of what has been achieved by both parties during the covenant time span.
- Prepare a discussion paper, based on the outcomes of this sustainability covenant, on the superannuation industry's possible future contribution to sustainability through increased resource efficiency and a reduction in ecological and social impact.

In addition, as its reporting capacity and knowledge increases throughout the life of this covenant, VicSuper will report internally and externally on the progress of the agreements made. A summary of outcomes from quarterly steering committee meetings in addition to the report at the end of year 1 will be publicly available.

At the end of the covenant's two year life, the covenant will be reviewed as to whether a new covenant will be established.

10. Other Information

In accordance with section 49AC(c) of the Act, the parties authorise the copying of all or any part of the covenant by any person who wishes to do so. The

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parties also authorise the use by such a person of any copies made by the person.

Contact details

EPA Victoria

40 City Road

Southbank Victoria 3006

Tel: (03) 9695 2722

VicSuper

90 Collins Street

Melbourne Victoria 3000

Tel: (03) 9667 9600

EPA Victoria