



Sustainability Covenant

Between Environment Protection Authority and
VicSuper Pty Ltd (VicSuper)
under section 49AA of the *Environment
Protection Act 1970*

17 August 2005

Background Information

About this sustainability covenant

This sustainability covenant is a voluntary agreement between the Environment Protection Authority (EPA Victoria) and VicSuper to work together to protect the environment and to contribute to a more sustainable Victoria. It is the second sustainability covenant entered into between the two organisations. VicSuper was the first organisation to sign a covenant with EPA Victoria and is the first organisation to commit to a successive covenant.

The first covenant was signed in May 2003 and was a two year agreement aimed at reducing VicSuper's ecological impact and increasing its resource use efficiency. This second covenant builds on the successes of the first covenant in furthering the resource use efficiency of VicSuper's operations. The achievements of the first covenant can be viewed on EPA Victoria's website at: <http://www.epa.vic.gov.au/>.

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.

VicSuper's approach to sustainability

VicSuper believes that building a sustainable superannuation fund is the key to meeting members' needs and contributing positively to society.

It is becoming increasingly clear that the long-term success of companies is linked with their environmental, social and economic performance. Company profits depend upon healthy companies, which in turn depend upon healthy economies in which to operate. Healthy economies cannot occur without the aid of healthy societies and a healthy environment.

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 governance is also required. This involves companies adapting their policies and systems to incorporate protection and restoration of the environment, transparency and compliance in their activities, 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.

This is the vision that VicSuper has for itself, for companies in which it invests, and organisations that it partners with and engages in its supply chain.

Sustainability in the superannuation industry

Sustainability is about economic development that aims to meet the needs of all people across the globe today, without compromising the ability of future generations to meet their needs. Superannuation and sustainability are natural partners that can work together to create positive and necessary change for the benefit of superannuation fund members, the economy, society and the environment.

Companies that display 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. For VicSuper, with the majority of members' savings invested in company shares, it is imperative that these companies and the societies in which they operate pursue long-term sustainable economic growth. The concept is simple: better long-term company performance leads to better company share performance which, in turn, equals better investment returns for VicSuper members.

The superannuation 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 part of the superannuation industry, can have a positive impact on society and the environment that reaches far beyond the impact of its own operations.

Structure of the covenant

The key strategic issues, key strategic environmental sustainability strategies and commitments within this covenant support VicSuper's seven key strategies for building a sustainable superannuation fund. All strategies and commitments made are outlined in Annex 1 and will be subject to review and possible change annually.

VicSuper's seven key strategies are to:

1. Deliver value
2. Invest for the long term
3. Recruit and retain quality staff
4. Maintain sound governance and accountability
5. Continue financial stability and growth
6. Minimise our environmental impact
7. Foster effective partnerships

The covenant is structured around these seven strategies and each of the strategic issues, strategies and commitments made by both VicSuper and EPA Victoria relate to one or more of them. It is anticipated that these strategic issues, strategies and commitments will change as VicSuper, the superannuation industry and corporate sustainability behaviour evolves and also as progress under this covenant is made through joint work with EPA Victoria.

This voluntary SUSTAINABILITY COVENANT is a statutory agreement under section 49AA of the *Environment Protection Act* 1970 made on the 17th day of August, 2005.

Between:

Environment Protection Authority ("EPA Victoria") 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 impact of those products and services. Sustainability principles will be applied to internal operations, member services, superannuation advice, administration, communications and education, professional relationships and the supply chain.

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

EXECUTED as a deed.

THE COMMON SEAL of the **ENVIRONMENT PROTECTION AUTHORITY** is duly affixed by the Chairman on the 17th day of August 2005

Michael John Bourke

Chairman

THE COMMON SEAL of **VICSUPER PTY. LTD.** was affixed to this document in accordance with its constitution in the presence of:

Director

Director

Name (please print)

Name (please print)

Sustainability Covenant

1. Scope and life of the covenant

Sustainability in its broadest form represents the interdependencies of economic, social and environmental factors. VicSuper's approach to sustainability is to explicitly integrate all three elements into its decision support systems and therefore into its daily operations, including investments.

As this covenant is an agreement with EPA Victoria, whose statutory role is to protect the environment, VicSuper and EPA have agreed to a specific focus on environmental sustainability and accordingly the strategic issues and associated commitments set out in Annex 1 relate solely to environmental developments. In making these environmental commitments, VicSuper and EPA recognise the interdependencies of all three elements of sustainability, and as such the covenant aims to contribute to the successful integration of environmental sustainability with both social and economic sustainability at VicSuper.

VicSuper and EPA believe it makes sense to establish a covenant that reflects the long-term nature of superannuation, yet at the same time is flexible in being able to adapt to expected developments in the evolving field of corporate sustainability.

This covenant will be effective for 10 years from the date of signing and will consist of a 10-year horizon for long-term strategic issues along with rolling yearly commitments. This structure is designed to correspond with VicSuper's strategic planning process, which is structured around a 10-year timeframe with rolling yearly operating plans.

2. About the parties

VicSuper

VicSuper is the corporate trustee and administrator of VicSuper Fund, one of Australia's largest regulated superannuation funds with more than 200,000 members and over \$3.3 billion in assets at the commencement of this covenant. VicSuper owns the assets of VicSuper Fund on behalf of its members and provides them with a wide selection of investment choices (see www.vicsuper.com.au for further information). 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* (Australian Government) which governs 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-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 information on how VicSuper invests the assets of the VicSuper Fund, visit www.vicsuper.com.au/investments

EPA Victoria

EPA Victoria is a statutory body that was established under an Act of the Victorian Parliament in response to community concern about pollution. The Environment Protection Act 1970 replaced statutory provisions scattered throughout more than 25 existing Acts, bringing together under one umbrella, symbolised by our logo, control of pollution on land, in water and air, and industrial noise. In particular, it puts the responsibility for sound environmental management on all Victorians – businesses, communities and individuals – where it belongs. The emphasis is shifting to market mechanisms, collaboration and co-regulation, rather than just the traditional 'command and control' approach to achieve environmental performance.

EPA's Mission is: *"With all Victorians, work to enable the achievement of a clean, safe and sustainable environment using our statutory capacities, knowledge, experience and continuing our valued relationships."*

A key strategy in achieving this mission is EPA Victoria's Memorandum of Understanding with the United Nations Environment Programme Finance Initiative (UNEP FI), whereby EPA Victoria co-ordinates and promotes UNEP FI activities in Australasia. UNEP FI was established in 1992 to promote sustainable development and environmentally sound business practices across the finance sector in response to the increasing importance of environmental issues in regards to commercial risks and opportunities. VicSuper is a signatory to the initiative.

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.

This covenant enables EPA to recognise VicSuper's environmental sustainability leadership under a statutory partnership. EPA's vision is that this partnership will stimulate change and innovation across the superannuation sector, and in related industries. The sustainability covenant will showcase how innovative approaches to environmental sustainability can also deliver robust financial returns over the long term.

The Authority is legally constituted by a person appointed by the Government to the position of "Chairman" and the Chairman is assisted by the EPA Board, an Executive and EPA staff.

3. Management of the covenant

A steering committee will be established to manage the sustainability covenant's implementation and will be made up of at least two representatives each from EPA Victoria and VicSuper, of which at least one must be a representative from senior management.

The steering committee is responsible for the development and ongoing refinement of the commitments made in the annex of this covenant.

VicSuper is accountable and responsible for the commitments made by VicSuper in this covenant, 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 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 Victoria reserves the right to withdraw from this sustainability covenant if, in its opinion, 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 EPA Victoria.

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.

The strategies and commitments will be revised annually and can be changed, deleted or added to at the agreement of both parties.

4. Review and Reporting

The covenant's progress will be reviewed by the steering committee bi-annually, which will involve the activities of the parties being reviewed and assessed for their effectiveness.

The outcomes of the first bi-annual review meeting of each year will be outlined on the websites of both parties.

At the end of each year, a progress report on the commitments made in the covenant and the activities undertaken by both parties will be written and made available publicly. These reports will also be made available on the websites of both parties within one month of the bi-annual meeting.

At any time during the 10-year length of the covenant, it can be reviewed and changed to the agreement of both parties. This is to ensure that the agreement remains appropriate to both organisations for the ongoing protection of the environment and to contribute to a more sustainable Victoria.

5. Other Information

In accordance with section 49AC(c) of the *Environment Protection Act 1970*, the parties authorise the copying of all or any part of the covenant by any person who wishes to do so. The parties also authorise the use of any copies made by the person.

Contact details

EPA Victoria:

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Tel: (03) 9695 2537

Email: sustainability.covenant@epa.vic.gov.au

VicSuper:

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Tel: (03) 9667 9600

Email: sustainability@vicsuper.com.au

Annex 1 – Joint work program for 2005/2006

Key strategy 1: Deliver value

Key strategic issue	Key environmental sustainability strategies	Commitments 2005/2006
Superannuation benefits administration, advice and education services	<ul style="list-style-type: none"> Develop, review, redesign and implement policies and work practices to increase efficiency and reduce the ecological impact of the provision and use of VicSuper's superannuation benefits administration, advice and education services. 	<ul style="list-style-type: none"> Open Traralgon Advice Centre to service members and employers in the south-east region of Victoria Commence review of vehicle purchasing policy and undertake environmental impact assessment on vehicle models to ensure selection of the most environmentally sustainable option for VicSuper's functional needs Research options to reduce kilometres travelled by superannuation advisor vehicles in providing superannuation advice and education services Continue to work with designers and printers to seek paper stock and printing methods for member and employer communications with high sustainability credentials Research redesign opportunities to move member and employer communications to a more electronically based format, while still achieving communication objectives and meeting legal obligations Increase member and employer awareness of online services for superannuation benefits administration and education services, initially through paper-based communications
Information technology	<ul style="list-style-type: none"> Maintain ongoing research of redesign opportunities presented by information technology in the delivery of superannuation benefits administration, advice and education services – with the aim to increase efficiency and reduce the ecological impact of the provision and use of these services 	<ul style="list-style-type: none"> Research, identify and recommend available technological solutions to reduce VicSuper's paper usage in provision of superannuation benefits administration, advice and education services

Key strategy 2: Invest for the long term

Key strategic issue	Key environmental sustainability strategies	Commitments 2005/2006
Sustainability performance of VicSuper Fund investment portfolio	<ul style="list-style-type: none"> Assess and document the environmental sustainability impact of VicSuper Fund investments Identify opportunities to reduce the ecological impact of VicSuper Fund investments 	<ul style="list-style-type: none"> Develop procedures and practices for assessing the environmental sustainability of VicSuper Fund's investment portfolio, and commence initial assessment of selected investments using these procedures and practices as a pilot
Sustainability investing	<ul style="list-style-type: none"> Identify opportunities for sustainability investing which achieve investment objectives and also contribute to restoring and protecting the environment 	<ul style="list-style-type: none"> Contribute intellectual capital to the Landscape Change Investment Analysis Project, which seeks opportunities to invest in land use change in Victoria Research and assess opportunities for forestry investment which include ecosystem services as part of investment returns Commit \$10 million investment in SAM Sustainable Asset Management Sustainability Global Fund II
Asset ownership	<ul style="list-style-type: none"> Incorporate environmental sustainability performance in company engagement priorities Establish and maintain a public database of information and case studies at industry sector level demonstrating value generated for investors through company engagement 	<ul style="list-style-type: none"> Negotiate with VicSuper's governance advisory service providers, BT Financial Group, advocating VicSuper's corporate governance priorities including environmental sustainability Through engagement with investee companies encourage: <ul style="list-style-type: none"> life-cycle stewardship of products and services operational resource use efficiency environmental criteria in supplier contracts awareness of carbon emissions, carbon trading and climate risk and adaptation challenges Research options for contracting with a service provider to undertake governance engagement on behalf of VicSuper with overseas companies which form part of VicSuper's international shareholdings Specify policy and protocols for establishing a sustainability case study resource guide accessible through VicSuper's website
Stakeholder dialogue	<ul style="list-style-type: none"> Establish relationships with stakeholders raising awareness of investment related environmental sustainability risks and opportunities Through a range of media, communicate with stakeholders the rationale for a sustainability based investment approach including the impact that environmental performance of investments has on investment returns 	<ul style="list-style-type: none"> Collaborate with and provide intellectual capital to the Investors Group on Climate Change Australia and New Zealand in its work in coordinating the Australian launch of the third Carbon Disclosure Project results on behalf of the UK Institutional Investors Group on Climate Change. Also assist in the extension of the Carbon Disclosure Project for a wider group of Australian and New Zealand companies and instigate research into the investment related risks and opportunities of climate change

Key strategy 3: Recruit and retain quality people

Key strategic issue	Key environmental sustainability strategies	Commitments 2005/2006
Recruitment	<ul style="list-style-type: none"> Promote VicSuper's environmental sustainability commitment in the labour market 	<ul style="list-style-type: none"> Promote VicSuper's commitment to environmental sustainability through presentations and presence at university career information days and other public forums Include on the careers page of the VicSuper website current information and links to VicSuper's commitment to sustainability Specify, design and develop a VicSuper profile publication outlining VicSuper's commitment to environmental sustainability and its incorporation into VicSuper's decision support systems
High performance culture	<ul style="list-style-type: none"> Encourage innovation in environmental sustainability in the workplace Provide recognition and encouragement to staff for sustainability achievements 	<ul style="list-style-type: none"> Recognise staff commitment and encourage innovation in environmental sustainability through VicSuper's staff Performance Review and Development System Recognise staff innovation in environmental sustainability through awards presented at monthly staff breakfast meetings Develop and implement policy for short term staff secondments to other leading organisations adopting environmental sustainability business and operational strategies
Learning and development	<ul style="list-style-type: none"> Build staff capacity to employ environmental sustainability principles and practices in decision making 	<ul style="list-style-type: none"> Re-launch VicSuper's staff sustainability committee to be more innovative and proactive in integrating sustainability further into VicSuper's operations Develop skills and capabilities of VicSuper's staff sustainability committee in advanced sustainability and behavioural change techniques Identify sustainability experts external to the company and invite their assistance in presenting to staff on corporate sustainability trends and developments on a quarterly basis Expand discussion and engagement on environmental sustainability in VicSuper's induction programs for new employees Review and update VicSuper's staff sustainability education program providing opportunities for all staff to undergo sustainability training – both general and role specific Continue to report sustainability achievements, developments and trends to staff at the monthly Chief Executive's staff breakfast meetings

Key strategy 4: Maintain sound governance and accountability

Key strategic issue	Key environmental sustainability strategies	Commitments 2005/2006
Sustainability reporting	<ul style="list-style-type: none"> Incorporate environmental sustainability performance in VicSuper's annual Sustainability Report Provide leadership in the financial services sector in reporting of environmental sustainability impacts 	<ul style="list-style-type: none"> Enhance environmental sustainability reporting in the VicSuper Sustainability Report 2005 – highlighting environmental risks and opportunities Arrange for an independent assurance review of the VicSuper Sustainability Report 2005 Prepare and distribute VicSuper's annual Sustainability Report 2005 to stakeholders Create a page on the VicSuper website that outlines VicSuper's sustainability achievements and provides links to the EPA webpage, which contains VicSuper sustainability covenant information, and to other related information
Risk assessment	<ul style="list-style-type: none"> Incorporate environmental sustainability analysis into risk assessments and risk management plans 	<ul style="list-style-type: none"> Consider environmental risks in 2005/06 biannual risk assessment reviews and business continuity, disaster recovery and emergency plans
Decision support systems and operations	<ul style="list-style-type: none"> Maintain current sustainability policy which incorporates environmental sustainability Provide ongoing training for senior managers and directors in application of VicSuper's sustainability policy in decision making 	<ul style="list-style-type: none"> Develop an overarching sustainability policy and update all other policies commencing in 2005/06 to fully integrate sustainability Develop training programs in the application of VicSuper's sustainability policy in decision making including the preparation of recommendations in Trustee decision papers

Key strategy 5: Continue financial stability and growth

Key strategic issue	Key environmental sustainability strategies	Commitments 2005/2006
Productivity improvement	<ul style="list-style-type: none"> Identify systems and work processes suitable for efficiency improvement through redesign using environmental sustainability principles 	<ul style="list-style-type: none"> Assess opportunities for environmental sustainability driven productivity improvements
Brand management	<ul style="list-style-type: none"> Increase the financial stability of the Fund through retention and growth in new membership and employers using VicSuper as their default fund for Superannuation Guarantee contributions, due to VicSuper's sustainability-driven governance policies, strategies and operations 	<ul style="list-style-type: none"> Inform members about VicSuper's environmental sustainability agenda, publicising the link between sustainability and superannuation in public forums and through business case studies listed on VicSuper's website and in other communication mediums Identify opportunities to engage stakeholders on the link between sustainability and superannuation Conduct regular reporting through VicSuper's website, and other effective communication media, on environmental impacts on financial outcomes

Key strategy 6: Minimise our environmental impact

Key strategic issue	Key environmental sustainability strategies	Commitments 2005/2006
Environmental impact of VicSuper premises	<ul style="list-style-type: none"> Integrate environmental sustainability design principles into the design, construction, refit and operation of VicSuper freehold and leased premises 	<ul style="list-style-type: none"> Incorporate environmental sustainability principles into the design brief and fit out of VicSuper's Traralgon Advice Centre Incorporate environmental sustainability principles into the design brief and fit out of additional leased space at VicSuper's Melbourne office
Environmental impact of staff transport	<ul style="list-style-type: none"> Research, identify and implement initiatives to reduce and offset the environmental impact of staff travel 	<ul style="list-style-type: none"> Develop company vehicle purchasing policy which optimises environmental sustainability performance outcomes while still meeting financial and business requirements Provide information to staff on commuting alternatives which reduce the environmental impact of travel Encourage staff to use more sustainable forms of transport to commute Review business procedures and practices and identify opportunities, where practical, to move information rather than people and products. For example through the use of information technology communications, video conferencing and telecommuting
Environmental impact of staff resource use	<ul style="list-style-type: none"> Research, identify and implement initiatives to reduce and offset the environmental impact of staff resource use, including: <ul style="list-style-type: none"> - energy - consumables - office equipment 	<ul style="list-style-type: none"> Research options for electronic communications and assess environmental benefits and impact on communication objectives Continue initiatives to reduce office waste sent to landfill at VicSuper's head office and regional advice centres, including monitoring through quarterly waste audits and reporting audit results to staff Review office systems to ensure infrastructure and procedures for double-sided copying and printing is maintained Continue initiatives to reduce office energy consumption at VicSuper's head office and regional advice centres Develop company policy for company office supplies which incorporate environmental sustainability into purchasing decisions Establish a project team of the staff sustainability committee to research, identify and recommend opportunities to reduce the environmental impact of VicSuper resource use Research and identify initiatives which assist VicSuper to become carbon neutral in resource use

Key strategy 7: Foster effective partnerships

Key strategic issue	Key environmental sustainability strategies	Commitments 2005/2006
Supply chain	<ul style="list-style-type: none"> • Integrate environmental sustainability principles into existing supplier partnerships • Specify environmental sustainability criteria in tenders and new supplier contracts 	<ul style="list-style-type: none"> • Develop a sustainability procurement policy and incorporate environmental sustainability considerations into all purchasing decision-making • Update VicSuper's outsourcing policy and guidelines incorporating environmental sustainability into the decision support system • Commence engagement with existing suppliers to adopt more sustainable practices where new initiatives are net present value positive
Effective networks and capacity building	<ul style="list-style-type: none"> • Share environmental sustainability information and knowledge with relevant stakeholders • Establish and maintain professional associate partnerships 	<ul style="list-style-type: none"> • In partnership with VECCL, contribute to the production of a practical guide to sustainability for small to medium enterprises in Victoria • Research options for collaboration with and influence of, partners on environmental sustainability issues and investigate how to share ideas and information with professional associate partners to build sustainability awareness • Provide sustainability case studies for business • Recommend to the Australian Council of Super Investors (ACSI) and Corporate Governance International (CGI) to include environmental sustainability ratings in their assessment of company governance
Local community impact	<ul style="list-style-type: none"> • Establish and maintain relevant community partnerships 	<ul style="list-style-type: none"> • Establish a project group through VicSuper's staff sustainability committee to research and identify environmentally beneficial community-based partnerships in which VicSuper can share intellectual capital and resource materials on environmental sustainability • Publicise partnerships for greater participation both internally and externally



Contact information

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Southbank Victoria 3006

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Email sustainability.covenant@epa.vic.gov.au

www.epa.vic.gov.au

VicSuper

Call our Member Centre
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VicSuper superannuation consultant
between 8.30am to 5.00pm, Monday to Friday.

Send us a fax
03 9667 9610

Write to us
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