FUTURE SUPER

2018 | IMPACT REPORT

INTRODUCTION

At Future Super our purpose is to empower Australians to use their savings to create a fairer, brighter, renewable energy powered future.

Future Super members are changing the world. Every day they are making choices and taking collective actions for a better future. By joining Future Super they have helped move $400 Million away from fossil fuel exposed super funds and into assets that are creating a fairer, renewable energy powered future.

Now, we've analysed the change that we produce in the world by investing our members' savings. Our Board, shareholders, staff and members have come together around our purpose, and this report is about understanding whether our impact delivers what our purpose promises.

Our 2018 Impact Report focuses on a few ideas in particular:

What is the carbon footprint of our investment strategy?
This was about understanding the environmental impacts of the companies we invest in – both positive and negative. It also considers how much of that impact belongs to us and our members as a result of our investments.

What are the members who roll into Future Super avoiding?
We analysed the publicly disclosed investments of some of the superannuation funds our members rollout from and into Future Super to understand what that decision really means for them and their savings.

What other work do we do that delivers on our purpose?
Our responsibility for our members' retirement savings means that we have a big pool of money that we manage. If anything gets people's attention, it's money. So, are we using ours for good? Namely, how are our investments, stock voting, shareholder engagements, research and thought leadership contributing to our purpose?

GLOSSARY

Carbon footprints are a calculation that show how much greenhouse gas a company emits or an investment is responsible for.

Carbon abatement shows how much greenhouse gas isn't emitted as a result of using renewable energy instead of fossil fuels.

Carbon avoidance is how much greenhouse gas emissions are avoided, particularly because of our ethical screens.

Key results:

- Our investment strategy helps fight global warming. Specifically, our investment options either abate or avoid more carbon dioxide than they produce.
- An average account balance avoids the same amount of greenhouse gasses as taking two cars off the road for a year.
- We're helping our members keep thousands of dollars of their retirement savings out of unethical industries like fossil fuels, gambling, and tobacco.
- Our members are holding organisations accountable for how they treat their staff, funds, communities, and the environment.

CARBON FOOTPRINT CALCULATOR

We investigated our carbon footprint to understand how effective our investment strategy is in addressing global warming.

It was an opportunity to set a baseline of our impact so we could build clear objectives to improve that impact over time. It also helps to make clear the connection between the money in our members accounts and the impact that capital has in the world.

What we weren't expecting is just how effective our combination of ethical screens and impact investing are at contributing to our purpose. We started with hoping to be close to carbon neutral.

Two of our portfolio options abate more carbon dioxide than they emit.

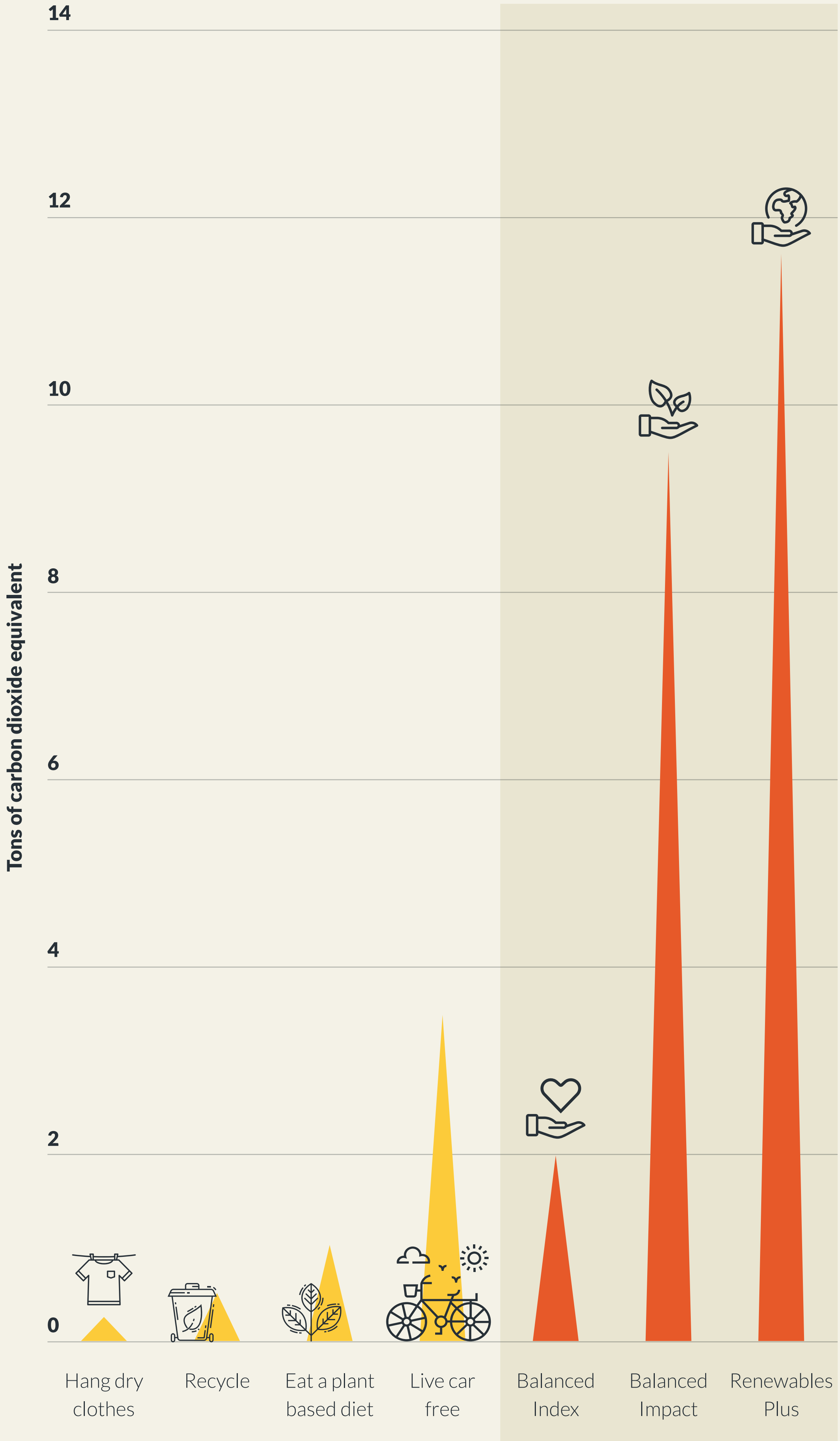
The impact is amplified when you compare our investments with benchmarks to consider how much our investment strategy avoids – in that scenario all three of our investment options avoid more carbon than they emit[1].

[1] Carbon Footprint and Abatement are calculated based on the percent of investment; i.e. if we own 5% of the total shares for a company then we own 5% of their impact. For full list of methodology and assumptions contact emily@myfuturesuper.com.au. Point Advisory has reviewed the associated carbon calculations to ensure they reflect Future Super's methodology.

	Renewables Plus	Balanced Impact	Balanced Index
Households' yearly electricity generated by renewables	90%	70%	N/A
Equivalent # of solar panels in Sydney for a year	7.47	5.77	N/A
Average annual carbon footprint per person	Abatement 44% Avoided 75%	Abatement 31% Avoided 62%	Abatement N/A Avoided 13%
Equivalent to carbon abatement of X number of rooftop solar panels	Abatement 6.73 Avoided 11.54	Abatement 4.76 Avoided 9.46	Abatement N/A Avoided 2.00
Cars off the road for 1 year	Abatement 1.53 Avoided 2.47	Abatement 1.01 Avoided 2.02	Abatement N/A Avoided 0.43

Average account balance[2]:

[2] The average account balance at Future Super at time of writing is $35,000.


14
12
10
8
6
4
2
0
Tons of carbon dioxide equivalent
Hang dry clothes
Recycle
Eat a plant based diet
Live car free
Balanced Index
Balanced Impact
Renewables Plus

For context, the UN Environmental Programme (UNEP) and Carbon Disclosure Project (CDP) have collaborated on supporting the Portfolio Decarbonisation Coalition – which is about encouraging investors to divest their capital from carbon intensive activities and invest instead in more carbon efficient programs. It requires member organisations commit to decarbonising their portfolios within a clear timeframe and disclose how they calculate their carbon footprint.

Most of the members of the Coalition have committed to decarbonising their portfolios by 2050.

Future Super has already gone above and beyond these requirements by having two out of three decarbonised portfolios in 2018.

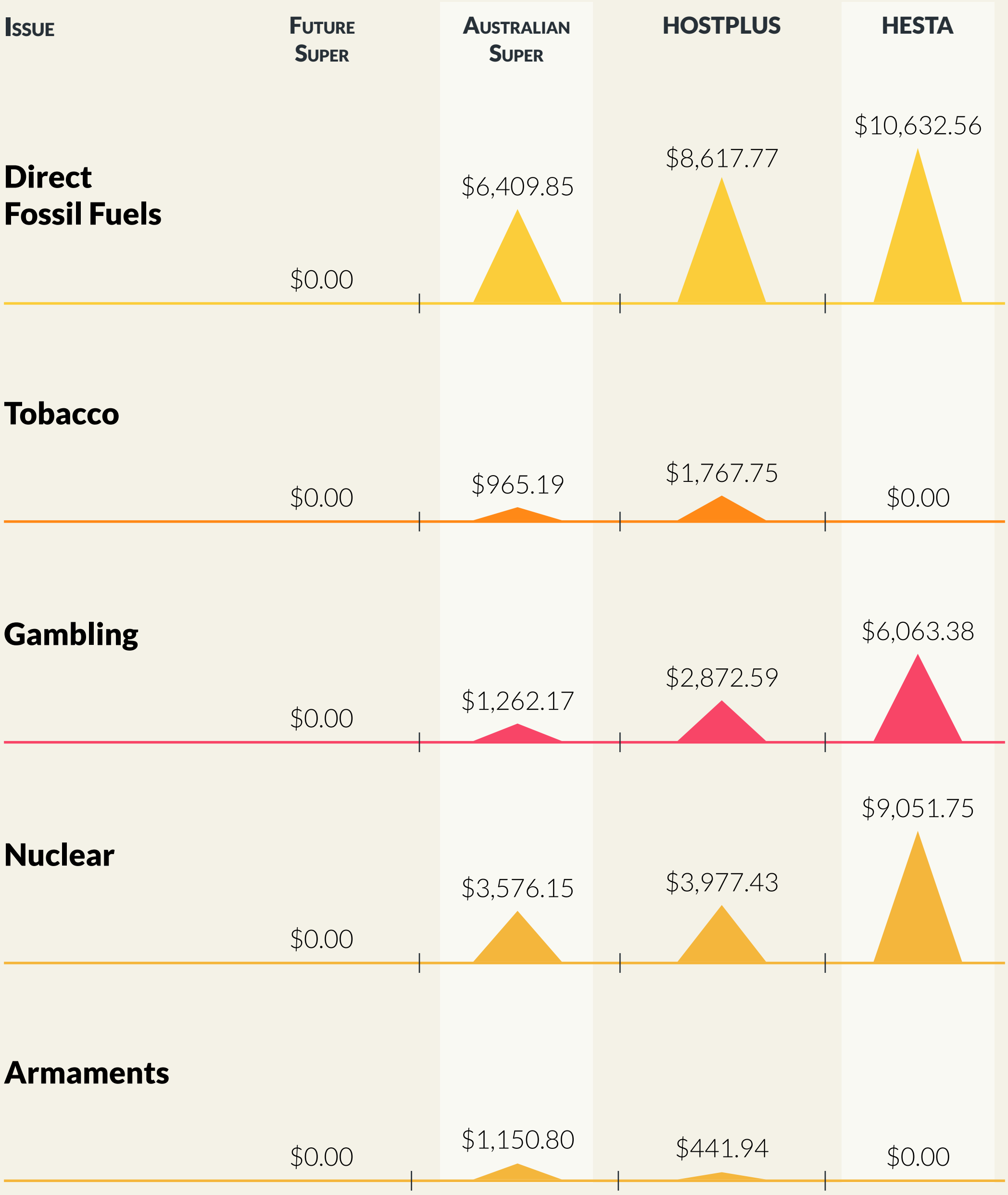
PORTFOLIO COMPARISON

We compared our investments with the publicly disclosed investments of the most common superannuation portfolios that Future Super members transfer from.

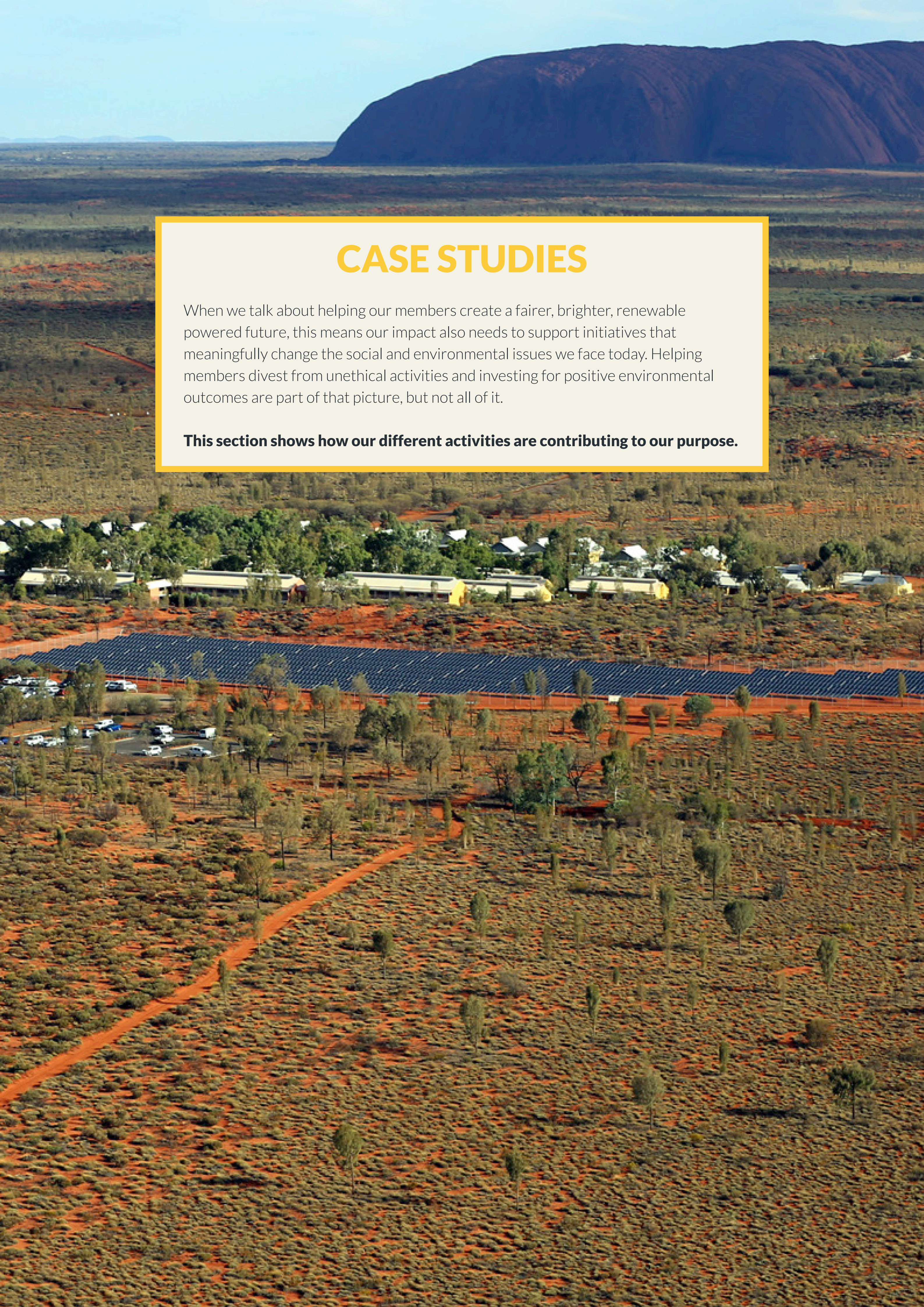
Our analysis included identifying the domestic and international shares, determining the activities of the listed companies, and the level of investment in companies who were profiting from:

- **Direct fossil fuel activities:** owning, burning or transporting fossil fuels.
- **Tobacco:** farming tobacco or manufacturing and selling cigarettes.
- **Gambling:** manufacturing, selling or operating gambling machines and programs.
- **Nuclear:** mining, research, development, or operation of uranium for energy or military programs.
- **Armaments:** research, development, production and operation of weaponry or weaponised technology of any kind, or significant services to military operations.

As a result of this work we can show the equity invested, on average, in these unethical industries at age of retirement for each Fund[3],[4] :



[3] Balance at age of retirement is the mean of the average balances for men and women aged 65-69 in Australia, which is $220,968.50. Source: *Superannuation Account Balanced by Age and Gender*, 2017, ASFA, p. 9.
[4] The equity invested is based on the public disclosure of the researched funds. It is calculated as the percentage of total fund invested in companies linked to flagged activities.



CASE STUDIES

When we talk about helping our members create a fairer, brighter, renewable powered future, this means our impact also needs to support initiatives that meaningfully change the social and environmental issues we face today. Helping members divest from unethical activities and investing for positive environmental outcomes are part of that picture, but not all of it.

This section shows how our different activities are contributing to our purpose.

INVESTMENT CASE STUDIES

Infradebt

Future Super seeded the Infradebt Ethical Fund (IEF), a debt financer of ethical infrastructure projects such as hospitals and renewable energy sites. The Fund sits in a niche in the market, providing finance to small and medium projects that have difficulty accessing funding from other sources. IEF provides the finance and re-finance options that make these projects viable, resulting in more renewable and efficient energy options becoming available for Australian businesses and communities. By financing these projects with debt, IEF also protects investors by ensuring they get returns for their investments.

One of the Assets held by the Fund, Amaroo Solar, is a solar farm set on top of the Amaroo Public School buildings in Canberra. Amaroo Public School doesn't use the energy generated, instead it receives a fee for the use of its real estate, providing an additional income stream to support its education programs. The electricity generated gets fed back into the grid at a fixed value, which is set by the ACT government and prescribed for the next 20 years. It's a low risk asset that produces financial returns, renewable energy, and supports the education of local school children.

Other assets held by the fund include utility scale solar and wind farms (which generate energy that can be used generally), energy efficient embedded networks, and off grid solar farms that generate electricity for the use of local businesses.

Investing in IEF allows us to support the transition to a low carbon economy through our fixed interest portfolio.

IIG Solar Asset Fund

The Impact Investment Group Solar Asset Fund (SAF) invests in new solar farms around Australia. By acquiring solar farms during the construction and development phase the Fund gets a good price for the assets and generates returns once the projects go online. The initial solar farm assets are located in Victoria and Queensland, which have relatively lower penetration of renewable energy so these assets will have a big initial impact on the local energy mix – meaning some consumers can access locally produced renewable energy for the first time.

New farms and projects will continue to be acquired as the Fund grows, but already in 2018 SAF has had an equivalent environmental impact to taking 5,000 cars off the road. This was with just two of the three initial solar farms developed and functional, the third was still being built.

Murray Darling Basin Water Fund

This Fund is the first of its kind in Australia, and it is managed in a collaboration between The Nature Conservancy and Kilter Rural. The Murray Darling Basin Fund trades water entitlements in the Southern Murray Darling Basin area and provides access to water for local farms while also reserving a portion of the water for conservation activities.

The idea behind the Fund is to provide water security for Australian farming families while also protecting culturally and environmentally significant wetlands and supporting threatened species. Traditional Owners are consulted when building the strategy for when, where, and how the water is allocated.

Future Super is an early investor in the Fund, which has provided better than target financial returns due to high demand for water from the farming community, while maintaining fair prices that allow farmers to plan ahead. It has also delivered very promising results from the conservation watering 'events' (when water is directed to the strategic wetland locations). These include increases in the diversity of local birdlife between 150% and 300% and a tenfold increase in the local aquatic plant diversity. This has also allowed the team to reintroduce a fish species back to the area, the Murray Hardyhead, which was thought to be locally extinct[5].

Aspire Social Impact Bond

The Aspire Social Impact Bond is an investment that generates returns when the Aspire Program successfully supports homeless and disenfranchised people in Adelaide. Investors provide the initial program funding, which the Aspire team use to deliver their specialised integrated program to help their participants. The Government of South Australia directs money back to the Investors based on the savings it makes when there is reduced demand for support and correctional resources thanks to the Aspire Program.

Aspire combines services focussed on life skills, housing access, employment pathways, and individualised case management for participants. It's early stages yet, with 2018 being the first year of activity (the program is designed to run until 2024) but already over 100 people are benefiting from the program. The most recent report recorded a 64% reduction in the emergency housing demand for participants and 22% lower conviction rate as participants begin to stabilise their lives[6].

[5] *Murray Darling Wetlands Working Group* 2018-19 Plan, 2018, MDWWG.
[6] *Aspire Social Impact Bond Annual Investor Report*, 2018, Social Ventures, p. 11.

ETHICAL ISSUE AND THOUGHT LEADERSHIP CASE STUDIES

Board diversity

Future Super was the first superannuation fund to introduce an ethical mandate to divest from listed companies that have all-male boards. We first introduced our board diversity screen to the Australian companies we invest in, starting by notifying companies that had all male boards that the screen would be put in place and we would divest from them if they did not have at least one woman on the board before it was introduced. At that time we were invested in three companies (small companies outside the ASX200) that had all male boards: Updater, Fluence and Megaport. All three responded positively and agreed to the deadline of May 2018.

Updater appointed Jessica Nagle, co-founder of SNL Financial, very quickly; they also told us they were pleased to have had an external prompt. However, the other two companies did not meet the deadline and have been divested. To date both companies still have all male boards.

For our international investments, we found 9 companies in our portfolio that had all male boards, the majority located in Japan. We drafted letters for each of these companies explaining the value in improving their board diversity and notifying them of our plan to divest should they choose not to appoint at least one woman to their board. We then had these letters professionally translated, before sending them through to the appropriate contacts.

With no response from these companies we will not be reinvesting in them, with full divestment scheduled for May 2019.

Aged Care

Future Super made the decision in mid 2017 to divest from the listed aged care sector, following a number of concerning reports of elder abuse and the increasing use of complex contracts that greatly benefited the aged care provider and penalised the people they were supposed to be caring for. We decided we wouldn't re-enter the sector until it is proven that these companies are acting in an ethical way. This means that listed companies like Aveo Group, Japara Healthcare, Estia Health or Regis Healthcare do not appear in the Future Super portfolio.

The concerns about the sector that motivated us to divest have lead to the establishment of a Royal Commission into Aged Care Quality and Safety, with hearings to continue through 2019.

Our ageing population is an investment "mega-trend" and most super funds and fund managers see big profits to be made in the sector. If run in a respectful and caring manner, aged care should also be an ethical investment, because it provides an important service to a vulnerable demographic of our population. However, because the evidence was mounting that too often companies in this sector were failing in their duty of care to their residents, we made the decision to walk away.

No other super fund, including any other ethical super fund, has taken the same stance that Future Super has on this issue.

While it was a decision made on ethics, our fund members have seen some financial benefit from the decision. When the Royal Commission was announced these companies saw a significant decline in the value of their shares. This is another example that demonstrates how companies or sectors that put their social licence to operate at risk through questionable practices are likely to see a financial cost from this risk.

[7] https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/GBRPartnershipProgram/Report/b02

Great Barrier Reef Foundation

Last year, Future Super partnered with The Australia Institute and Divest:Invest to release a report, Banking Against the Reef. The report highlighted how the Great Barrier Reef Foundation was banking its $444 Million government grant in fossil fuel investments and that the Foundation desperately needed an investment policy that excluded fossil fuels.

Richie Merzian, the director of climate and energy at The Australia Institute, appeared before the Senate Committee arguing that if the Foundation was to gain credibility in its role protecting the Great Barrier Reef then it needs to align its investments with the health of the Reef.

The Senate Committee Report drew heavily on our work, and makes the recommendation[7] that if the Foundation is to retain the monies, then:

> “*all necessary steps be undertaken to ensure that the Foundation's investment of public funds precludes investment in sectors or funds that directly or indirectly contribute to climate change, particularly companies that generate energy from or undertake mining of fossil fuels.*”

A Senate Committee recommending that an institution divest from fossil fuels is a big step forward for the divestment movement. We are proud of our contribution that helped make this possible and are continuing to engage with the Great Barrier Reef Foundation on how they can implement an ethical investment strategy aligned with the Senate Committee recommendations.

Animal Welfare

We sponsored a report from ESG research company CAER, Intensive Animal Farming and Live Animal Export: Exposure of ASX Listed Companies, to help bring light to the ways investment can become tied up in this contentious practice. The leading animal advocacy NGO, Animals Australia, used the findings of this report in their engagement with super funds, highlighting the investments super funds have in these industries.

Cruelty Free Super joined a coalition of 73 global investors, representing over $3Trillion USD, that seeks to highlight the public health risk of routine antibiotic use in farmed animals. The Global Investor Statement on Antibiotics Stewardship has been coordinated by FAIRR and targets all global companies that produce or purchase meat products.

ENGAGEMENT CASE STUDIES

Clover Corp

When we build the screens and rules for our investments we think about how to get our members the best results both financially and ethically. That means we're keeping our members money out of obviously unethical industries, like tobacco, but it also means we need to think about whether a particular company is acting ethically.

Clover Corp is a good example of a company that would seem at first glance to be fairly uncomplicated: they manufacture infant and general nutrition products. However, their products are special because they have omega oil supplementation. Omega oil is linked to a number of improved health outcomes, but the primary resource for omega oil supplementation is fish. With the threat of over-fishing to global ecosystems, extinction of fish and other wildlife, and to coastal communities, how and where you source fish are very real ethical concerns.

Since we couldn't find enough information to confirm Clover Corp managed its supply chain ethically, we reached out to their team to confirm their sourcing practices. We spoke with their CEO, who confirmed they get their oil as a by-product of the tuna canning industry, with factories that have Marine Stewardship Council (MSC) certification and auditing.

This means Clover Corp is transforming the 'waste' from these operations into supplementation and, what's better, they're proactively investigating ways to make the reclamation process more efficient. If they succeed, they'll be diverting more of the byproducts from landfill and reducing the demand for fishing to get the same level of omega oil.

From start to finish of this process we came up against a few surprises, but we're proud to help our members invest in this organisation.

Ansell

Our goal is to help our members use their retirement savings to build a better world; so when the ABC published an article in December 2018 accusing Ansell of sourcing rubber gloves from a supplier that mistreated employees we got straight to work to find out what was going on. In collaboration with BetaShares, we reached out to Ansell's Investor Relations team and asked them to explain what had gone wrong and what they were doing to make sure they weren't profiting from unfair employment practices, now or in the future.

To their credit, the team at Ansell have been proactive and transparent in how they managed the situation. While Ansell already had a supplier agreement that bans some of the behaviours that were described in the report, they added wording that specifically banned restricted access to passports and workers paying recruitment fees, in addition to the mandated fair pay and work-life balance requirements. They also expanded their relationship with Supplier Ethical Data Exchange (Sedex) to increase audits for their suppliers and manufacturing sites.

One exciting result from this engagement, in addition to the company policy changes, was the fact that Ansell received enquiries from other investors, stakeholders and members of the public. This shows how Future Super can work alongside community engagement to add weight as investors for important issues and shift the behaviour of companies.

Join the fossil free movement & turbocharge Australia's renewable energy future

Getting in touch with us

Visit us myfuturesuper.com.au

Follow us @myfuturesuper

Call us 1300 658 422