FUTURE SUPER IMPACT REPORT 2019

PURPOSE: To build a prosperous future, free from climate change and inequality.

MISSION: To lead the movement to use the power of money to invest, advocate, and campaign for a future worth retiring into.

VISION: That all of Australia's retirement savings will be invested to drive positive social and environmental impacts.

Future Super believes that there is enormous potential for all people living and working in Australia to invest their super in a way that provides them with a competitive financial return on their investment, and at the same time helps create the sort of world they want to retire in.

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INTR ODU CTIO

INTRODUCTION

People living and working in Australia have almost $3 Trillion in retirement savings invested through superannuation funds.[1] Super is a valuable and powerful asset. Eventually, the money in our super fund accounts comes back to us as income when we retire. In the meantime, that capital shapes the world we live in. The money in our super funds decides what industries and activities gets funded, and which ones don't, which in turn influences how companies and their executives behave.

Over 15,000 people have chosen to trust Future Super with their retirement savings. When we think about that responsibility, we consider how our actions today will impact the future our members will retire into, a future we will all share.

The purpose of this report is to highlight the actions that we took in 2019 to create a future that is worth retiring into. It is about being accountable to our vision, mission and purpose as well as being worthy of our members' trust.

When we talk about our impact, we're speaking about our direct contribution to action on climate change and inequality through our investments, advocacy and campaigning. Throughout this report you will see analysis that speaks to the impacts our members are creating by choosing to invest with us.

We cannot speak about our work without also recognising that this work was conducted on stolen land; we acknowledge the Traditional Custodians of that land and pay our respects to Elders past, present, and emerging, and recognise the enduring relationship First Nations peoples have with Country. We are proud to stand together in the fight against climate change and inequality. There is no climate justice without justice for First Nations peoples.

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1. **https://www.superannuation.asn.au/resources/superannuation-statistics**

Looking back on 2019

2019 was a year of growth for Future Super. In September, as we celebrated the 5th anniversary of the launch of Future Super, we also celebrated reaching the milestone of $1 billion in funds under management for the Future Super Group[2]. By the end of the year the funds we manage (across our superannuation fund and other products) had grown to beyond $1.3 billion.

During 2019, more people than ever before began thinking and talking about the collective power we all hold through our superannuation – which totalled $3 trillion by the end of the year.[3]

That's well over 1,500 times the personal wealth of Clive Palmer, who was loud enough to influence the federal election in 2019[4]. On our own we are not billionaires, but collectively we share a wealth in superannuation that is extremely powerful.

Looking beyond our growth, 2019 also gave us a window into the smoke-choked future we face if we don't take urgent action. It taught us the power of standing together through huge events like the School Strike for Climate. The Federal Court of Australia accepted a case that challenges all super funds to take seriously the threat of global warming[5]. The world's largest investors continued to step away from fossil fuel investments, such as the divestment commitment from the world's largest sovereign wealth fund (Norway)[6].The world is changing.

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2. Future Super Group encompasses Future Super Investment Services Pty Ltd, which is the Promoter and Investment Manager of the Future Super Fund, and its related bodies corporate. In this document, references to 'we', 'our', Future Super, etc. mean Future Super Group, unless otherwise specified.

3. **https://www.superannuation.asn.au/resources/superannuation-statistics**

4. **https://www.smh.com.au/federal-election-2019/labor-pushes-for-cap-on-political-expenditure-after-clive-palmer-s-60-million-election-spend-20190522-p51pxv.html**

5. **https://www.abc.net.au/news/2020-01-18/mark-mcveigh-is-taking-on-rest-super-and-has-the-world-watching/11876360**

6. **https://www.reuters.com/article/us-norway-swf-oil/norway-sovereign-wealth-fund-to-divest-oil-explorers-keep-refiners-idUSKBN1WG4R9**

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HOW WE'RE INVESTING FOR IMPACT

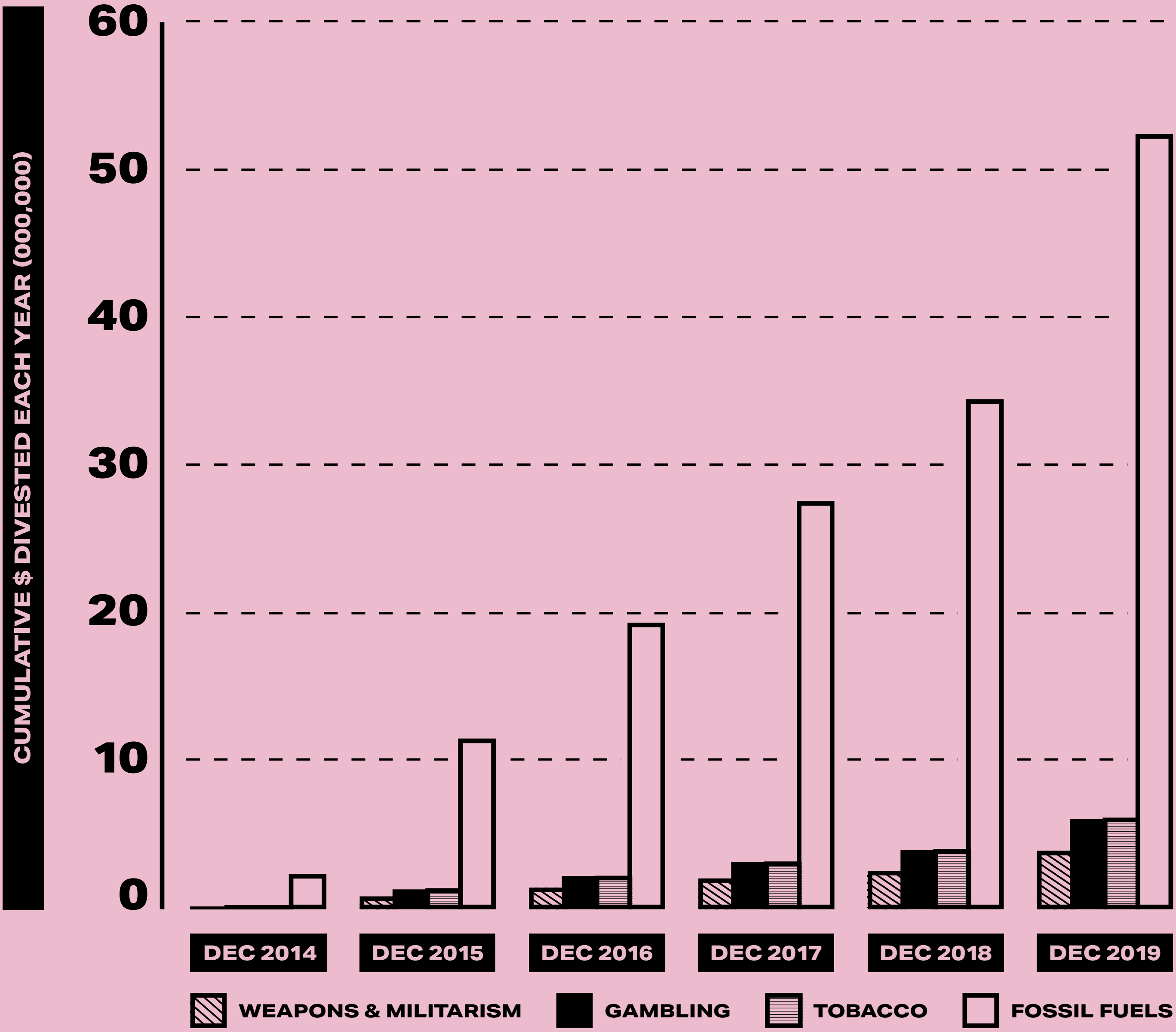
As a superannuation fund we invest money on behalf of our members. Like other super funds, we think about the financial implications of all of the investment decisions we make. We also think about the real-world implications of our investments.

When other super funds talk about impact investing, they are usually talking about making a handful of investments specifically designed to create positive impacts. It's much less likely that they're talking about the impact of their entire investment portfolio. For example, a super fund may invest $1 million in a social impact bond that helps address homelessness, while investing $100 million into companies that contribute to and profit from gambling, which increases the risk of homelessness. We believe that it's irresponsible to measure the positive impacts of one investment while overlooking the negative impacts holding in the rest of the portfolio.

In this section we'll take you through the climate impacts of our portfolios – for our members as individuals, and for our membership collectively..

FIGURE 1

HOW OUR MEMBERS' DIVESTMENTS HAVE GROWN



This chart shows how much money our members have divested[7] together since Future Super's inception. Through members choosing to roll their superannuation into and keep their superannuation with Future Super, we believe Future Super has potentially stopped an estimated $50 million from being invested directly into fossil fuels.

For more information, see our **Methodology and Assumptions** below.

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7. See our **glossary** if you want to learn more about divestment.

Based on our internal analysis, which compares our screened investment portfolio with the unscreened portfolios of our benchmark competitors we estimate that superannuation portfolios that don't ethically screen their portfolios invest an estimated 9.75% in direct fossil fuel activity (being the exploration, mining, and burning of fossil fuels).

Another way of looking at those outcomes is to think about how the carbon our members avoid through investing their superannuation sustainably, compares to the carbon they avoid by taking other climate positive actions.

Because climate action isn't a zero sum game, we know our members are often combining investing their super sustainably with some of these actions, so you can imagine these outcomes stacked as well.

FIGURE 2

ANNUAL CARBON OUTCOME OF SUSTAINABLE ACTIONS

RENEWABLES PLUS	6.2395
BALANCED IMPACT	6.6402
BALANCED INDEX	2.1313
LIVE CAR FREE	3.4723
SWITCH ELECTRIC CAR TO CAR FREE	2.4074
AVOID ONE ROUNDTRIP TRANSATLANTIC FLIGHT	1.929
BUY GREEN ENERGY	1.433
REPLACE TYPICAL CAR WITH HYBRID	1.3118
EAT A PLANT BASED DIET	1.0472
WASH CLOTHES IN COLD WATER	0.4409
RECYCLE	0.2315
HANG DRY CLOTHES	0.2315

Data is calculated by comparing the tonnes of carbon dioxide each of our investment options avoided and abated through our sustainable investment strategy for the 2019 calendar year, with the tonnes of carbon dioxide an individual person avoids by taking each of these actions for the same twelve-month period.[8]

8. Based on a research study completed and published in July 2017. **https://iopscience.iop.org/article/10.1088/1748-9326/aa7541**

We also compared the climate outcomes of all of the superannuation we manage on behalf of our members. In 2019 our 15,000+ members collectively abated and avoided just over 62,000 tCO2e.

That's like:

+ **OVER 35,000 PEOPLE DECIDING TO HOLIDAY LOCALLY RATHER THAN FLYING TO LONDON AND BACK VIA SINGAPORE**
+ **NEARLY 60,000 PEOPLE DECIDING TO START EATING A PLANT BASED DIET**
+ **TAKING ABOUT 27,500 CARS OFF AUSTRALIA'S ROADS**

The Loy Yang A power plant in Victoria has a generation capacity of 2,225 MWh. In 2019, members of our Renewables Plus Growth and Balanced Impact portfolios invested in solar and windfarms that generated more than 23 times that (over 51,000 MWh).

We also made some exciting new investments in organisations helping to create climate and inequality solutions.

GREEN SQUARES

In partnership with Green Squares, during 2019 Future Super Fund invested in the installation of "behind the meter" solar in schools. This technology allows schools to produce their own clean energy, thereby saving on their electricity costs and freeing that budget up to go elsewhere.

RATESETTER

In July 2019, Future Super Fund became the first super fund to invest into the National Clean Energy lending market. Everyday people can finance solar and batteries for their homes at a fair interest rate by accessing the National Clean Energy lending market through the RateSetter platform. The platform offers people an alternative to obtaining a bank loan in order to install solar.

VISIONFUND INTERNATIONAL

In November 2019 Future Super Fund invested in a $20 million bond issue from VisionFund International, a microfinance focused subsidiary of World Vision. The focus of the bond is on supporting women entrepreneurs, rural clients and farmers, and other vulnerable people seeking greater financial inclusion.

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HOW WE'RE ADVOCATING ON BEHALF OF OUR MEMBERS

As the stewards of our members' superannuation, we manage a large pool of money. Money is power. It makes the world turn. It makes people listen and act and react. When we think about our ability to change the systems that produce inequality and climate change, we need to think bigger than just the way we manage that money.

We need to think about how we use the platform that comes with money.

In safeguarding our members' future, we think about how we can bring their voices and reflect their interests to the companies we invest in. This includes using the tools available to us to ask important questions, demand authentic action, and follow through by divesting when companies don't meet our ethical expectations.

All male boards

In May 2019, Future Super became the first super fund to exclude investment in any listed company that only has men on their board of directors.

Company boardrooms are becoming more diverse. What was once the domain of older white men is now slowly transforming into something that looks more representative of the diversity in our society.

There's a strong incentive for companies and investors to support better diversity on boards. Boards that have more diversity have a better understanding of their marketplace and make better decisions. Companies with diversity at all levels have better competitive performance, talent management and risk mitigation[9]. Companies with gender diverse boards have significantly better financial performance when compared to their industry average.[10]

There are still large companies listed on sharemarkets in Australia and around the world that have boardrooms with only men. It takes a company determined to thumb their nose at women to choose to maintain an all-male board even at the proven cost to their business performance.

More importantly, how can a company be trusted to work through the harder issues of inequality, like gender pay gaps and ensuring their products have broad appeal, if they refuse to ensure their boards are a diversified group of qualified people?

Future Super began divesting from companies with all-male boards in 2018. We started with three Australian companies we invested in that had all-male boards. One of these companies was quick to add a woman to their board, the other two companies were divested.

There were 7 companies in our global share portfolio that had all-male boards. All of these companies were from Japan, where boardrooms often contain 20 to 30 men. We engaged with each of these companies, advocating for improved diversity in their boardrooms. When this wasn't forthcoming, we divested from them. Since May 2019, Future Super has not been invested in any listed company with an all-male board.

To make change, super funds must be willing to use all the levers available to them. Engagement with companies around issues like gender diversity is important and can be effective. If a company is engaging with you but is going through multiple AGM seasons without nominating a woman to their board, then it's clear that engagement isn't going to work. It's time for super funds to send a stronger message through divestment.

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9. McKinsey & Co. 2015, 'Diversity Matters', **https://assets.mckinsey.com/~/media/857F440109AA4D13A54D9C496D86ED58.ashx**.

10. MSCI 2016, 'The Tipping Point: Women on boards and financial performance', **https://www.msci.com/documents/10199/fd1f8228-cc07-4789-acee-3f9ed97ee8bb**.

Proxy voting

In 2019 we used the power of proxy voting[11] to advance the ethical and environmental management of the companies we invest in. Proxy voting is the vote a shareholder casts during a company's annual general meeting (AGM). It provides feedback to the board of directors of a company about what is important to its shareholders.

Our objective is to ensure we hold the companies we invest in accountable to the ethical expectations of its shareholders, including Future Super members. We voted in favour of resolutions that demanded companies step up their game when it comes to how they impact the world around them, and voted against resolutions that sort to halt progress or add complexity that would prevent meaningful action on climate change and inequality.

In 2019 we voted on 29 resolutions at 19 company AGMs. The resolutions covered a wide array of topics including: resolutions designed to improve equity for women and other minorities; resolutions that demanded more ambitious emission or plastic reduction targets; and resolutions designed to increase transparency about how companies influence the politics of the countries they operate in by lobbying and other means.

EXAMPLE: VERTEX PHARMACEUTICALS

Vertex Pharmaceuticals researches and develops medicines to help treat people with diseases like Cystic Fibrosis.

A resolution, which was lodged with many pharmaceutical companies in 2019, asked the company to consider drug pricing as one of the risks that factor into how well its company executives get paid. It requires that those executives manage the potential business risks associated with any unfair drug pricing or they will lose part of their bonus. As regulators, community groups, and ethical investors all work together to challenge drug pricing in the US, this resolution got broad support for a shareholder resolution, with over 20% of shareholders voting in favour. This is extremely promising and shows a high amount of interest for a resolution of this kind. When a shareholder resolution gets significant support (even if it doesn't pass) it usually results in two outcomes: the Board of Directors are much more likely to engage meaningfully on the issue; and that resolution can be repurposed at other companies to get an entire industry to shift its practices.

11. See our **glossary** if you want to learn more about proxy voting.

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HOW WE'RE CAMPAIGNING FOR SYSTEMS CHANGE

The climate crisis and inequality are huge, entrenched problems. They're baked into the systems that shape our world. When we think about how we, as Future Super, can lead the movement to use the power of money to fight climate change and inequality we need to look beyond just our actions and those of our immediate community

Through our campaigning we seek to change conversations and convince organisations that operate in entirely different fields to take action on climate change and inequality.

Not Business As Usual Campaign

It's not business as usual for the world's children to skip school in order to get adults to pay attention to the climate crisis. Or for those children to ask the adults to strike. As we approached Friday 20 September 2019, that's exactly what happened. Business leaders around the world faced the challenge of deciding how they would react to the first Global Climate Strike.

Future Super Group supported a strike day shutdown. But no employee should have to choose between a paycheck and the planet, so we launched an alliance of businesses pledging to support employees to strike – the Not Business As Usual alliance.

The campaign launched nationally but had a global impact. We launched the Not Business As Usual pledge microsite on 2 September 2019 alongside 19 other Australian businesses.

Two days later, Al Gore and Greta Thunberg tweeted about the alliance. Companies from Australia, Canada, Sweden and the US made pledges. Due to requests from New Zealand businesses, we maintained the pledge and site for their own climate strike a week later.

Our objectives were to drive turnout to the climate strike and shift the way society thinks about the role of business. The campaign contributed to change in three critical ways.

1. **INCREASED TURNOUT AND EMBOLDENED EMPLOYEES.**
   Hundreds of employees sent the pledge to their employers. 3,133 businesses took the pledge, supporting over 100,000 workers to strike and normalising striking for the climate. 470,000 strikers turned out in Australia and New Zealand.[12] The addition of adult workers striking was credited with doubling the turnout from the student-led climate strikes held earlier in the year[13].

2. **DROVE AWARENESS OF THE CLIMATE STRIKE BEYOND THE CLIMATE MOVEMENT.**
   In 25 days, the alliance earned 395 global media mentions including the AP wire, NBC and The Huffington Post, culminating in 83,830 views of the pledge website.

3. **PROMPTED A RETHINK OF THE ROLE OF BUSINESS.**
   Following the strike, major Australian businesses are taking meaningful climate action: Telstra announced it will achieve carbon neutrality in 2020[14], Atlassian aims for net zero carbon emissions by 2050[15], and Future Super, among others, publicly support Australia's first Climate Act.

When the world's biggest fund manager Blackrock announced that it would divest from thermal coal stocks in its actively managed portfolios, they referenced the turnout at the Global Climate Strikes:

> **"LAST SEPTEMBER, WHEN MILLIONS OF PEOPLE TOOK TO THE STREETS TO DEMAND ACTION ON CLIMATE CHANGE, MANY OF THEM EMPHASISED THE SIGNIFICANT AND LASTING IMPACT THAT IT WILL HAVE ON ECONOMIC GROWTH AND PROSPERITY – A RISK THAT MARKETS TO DATE HAVE BEEN SLOWER TO REFLECT."[16]**

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12. 300,000 in Australia is the most commonly cited number (e.g. **https://www.abc.net.au/news/2019-09-20/school-strike-for-climate-draws-thousands-to-australian-rallies/11531612**) and 170,000 is the estimate for New Zealand (**https://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=12271480**)

13. **https://www.afr.com/policy/energy-and-climate/climate-strike-turnout-doubles-as-adult-workers-join-the-fray-20190919-p52sxv**

14. **https://exchange.telstra.com.au/acting-on-climate-change/**

15. **https://www.atlassian.com/blog/announcements/atlassian-commits-to-the-fight-against-global-climate-change**

16. **https://www.afr.com/companies/financial-services/blackrock-dumps-thermal-coal-20200114-p53rd0**

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GLOSSARIES

Jargon buster – climate terms

TERM	EXPLANATION
TCO2 EQUIVALENT	Different activities and companies emit many different greenhouse gasses, which each have slightly different climate impacts (aka global warming potential). So that scientists and businesses can understand their climate impacts, these emissions all get translated to a basic unit, which is how much carbon dioxide it would take to create an equivalent climate impact. The basic unit of climate impact is called tons of carbon dioxide equivalent (or tCO_2e). It's calculated using the metric ton.
GREENHOUSE GASSES	These are the different types of gasses that trap heat from the sun in the atmosphere and contribute to global warming.
CARBON FOOTPRINT	The total amount of greenhouse gas emissions a company creates as part of its activities is called its carbon footprint. Companies aren't the only things that have carbon footprints: you have a carbon footprint and so does Australia. They are just ways of saying, "this particular entity or thing is responsible for creating this amount of climate impact", which is an important thing to understand when we think about how best to take action to stop global warming.
SCOPE 1 EMISSIONS	These are the greenhouse gas emissions that are a direct result of a company's core business activities. For example, the emissions from burning fuel to power trucks for a transport company or the emissions a coal fired plant produces when it burns coal to produce electricity.
SCOPE 2 EMISSIONS	These are the greenhouse gas emissions that a company indirectly consumes as part of powering its business activities. Importantly, the company has a direct relationship with the entity generating those emissions, and some control over choosing which provider they source their power. So, if a company chooses to source their power from the local energy grid, and that energy grid is powered by coal, then the emissions from that coal are counted as scope 2 emissions for the company using the grid.

TERM	EXPLANATION
SCOPE 3 EMISSIONS	These are the emissions that a company can't directly control in their supply chain (such as the emissions generated by transporting office supplies) or the emissions from the products or services they sell after the transfer of ownership. This is particularly important for coal miners and other fossil fuel extractors, because if they sell their product to a power plant this is where the emissions from fossil fuels show up in their reporting. As an example, a coal mining company has a much smaller carbon impact when looking at only its scope 1 and 2 emissions, which are the emissions involved in extracting the coal from the ground. However, when the coal miner sells the coal to a power station, the burning of that coal has a very large carbon impact. Scope 3 emissions capture this downstream carbon impacts of the coal.

Jargon buster: investing and climate change

TERM	EXPLANATION
FINANCED EMISSIONS	Financed emissions are a way of calculating the carbon footprint of an investment. However much of a company you own, you are responsible for the same portion of its climate impact. So, if you own 5% of a company, you also own 5% of its emissions. When we look at investment portfolios, like your super, all the different bits of the ownership get added up together and weighted by how much you invest in those companies. The financed emissions are the emissions you are responsible for through your investments.
CARBON AVOIDANCE	Carbon avoidance is a way of thinking about how your decisions impact the amount of carbon you're financing or are responsible for. Just like choosing to drive a hybrid car changes your carbon footprint, so do the choices you make with your finances. When you choose to invest in low carbon portfolios, you are avoiding the carbon you would be financing if you invested in another portfolio. Carbon avoidance shows that estimated difference between 2 portfolios. Usually carbon avoidance is shown as the difference between the financed emissions of your investment portfolio compared to a benchmark portfolio.

TERM	EXPLANATION
CARBON ABATEMENT	Carbon abatement looks at the impact of sourcing low carbon energy (such as through renewable technology like a solar farm) instead of what you'd normally get if you didn't make that decision. Think about the difference between a solar farm and the standard energy grid using dirty power. The solar farm generates carbon-free electricity. The grid produces carbon intensive electricity. The carbon abatement is equal to the amount of carbon intensity the solar farm has displaced from the energy grid.. Just like you finance the emissions of a company when you own a part of it, you also finance the abatement of companies that are providing solutions to the climate crisis.
DIVESTMENT	At its most simple, divesting is the opposite of investing. If you divest of fossil fuel companies, it means you have sold your ownership of fossil fuel companies. Divestment is especially powerful when it's part of a wider movement, because it does two important things: 1. It draws a lot of negative attention to a company or activity, which can hurt its reputation or social licence to operate; and 2. It makes it more expensive for a company to access the money it needs to keep doing its harmful activity, because the people willing to lend it or invest in that activity expect a better return for their investment, since less people will give them that money.
ENGAGEMENTS	Engagements in the business world mean the conversations investors have with companies, often about a particular concern or issue. We believe that there's lots of ways to have influence in these conversations and that it is the responsibility of super funds to make the most of these opportunities to help produce the best possible outcomes and impact for their members. Traditionally these conversations have happened behind closed doors. Our approach is to be transparent about who we're talking to, what we're wanting to achieve, and how they respond. We also believe in follow through: if a company insists on continuing to do something harmful then we will divest and be public about it.
PROXY VOTING	When you own part of a company by investing in its shares, you get a right to vote on the resolutions put forward at that company's annual general meeting (AGM). Your amount of voting power corresponds to how much of the company you own.

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METHODOLOGY AND ASSUMPTIONS

This section outlines the approaches we've taken to understand and represent our impacts in this report. We contracted ISS ESG to review our analysis and confirm that it was consistent and followed the process detailed below.

Figure 1

When assessing our contributions to the divestment movement, we have taken the following approach:

+ Our analysts identified the investment exposure for each of the divestment categories by flagging companies that generate profit or revenue directly from fossil fuels, gambling products, tobacco, and the manufacture or maintenance of weapons of any kind
+ We have assumed that our members choose to roll into and remain with Future Super rather than invest their superannuation in a portfolio that has the same investment strategy without any ethical exclusions.
+ We have compared our investment strategy (including our ethical and sustainable exclusions) to an investment strategy that invests in similar financial products (i.e. a portfolio comprised of Australian shares, international shares, fixed interest investments and alternative investments) without any negative screens or ethical exclusions.

Figure 2

When assessing the carbon outcomes and renewable energy generation of our investment strategy, we have taken the following approach:

+ We analysed the financed emissions of our investments and compared them to the financed emissions of the investments we use to track and benchmark our financial performance (which don't have negative screens). This establishes the carbon that we avoid.
+ We asked the companies that we invest in as impact investments fighting climate change to provide us with the carbon data for their activities in 2019. This establishes the carbon that we abate.
+ We then assess how much each of our portfolios invests in each product to determine how much each of our investment options abates and/or avoids.
+ When we talk about the carbon outcome of the average member, we have used the average financial member balance of $38,000.
+ When we talk about our whole of fund abatement and avoidance, we have analysed how much in total across all of our investment options we invest in these financial products to get a total fund figure.
+ The examples we use to put the carbon outcomes into perspective are based on inhouse analysis using trusted sources.
    + Our comparison to the other actions people can take to further avoid carbon emissions is based on the **2017 study** conducted by Wynes and Nicholas on individual climate action.
    + Taking a roundtrip economy flight between Sydney and London (via Singapore) is responsible for 1.75tCO2e per flight. This is determined by the UN agency the International Civil Aviation Organisation, **ICAO**.
    + The estimated emissions of 2.28 tCO2e per car per year in Australia is based on **ABS data** for distance travelled by passenger vehicles (12,600 per year Australian average) and the Australian **National Transport Commission's** estimate of average emissions per km of cars sold in 2018/19 180.9 gCO2e(taken as a proxy for average emissions of all cars).
    + Based on **disclosures by AGL** which indicate that Loy Yang A Power Station has a generation capacity of 2,225 MWh.

This Impact Report is issued by Future Super Investment Services Pty Ltd (ABN 55 621 040 702; AFS Representative No. 001271441), which is a Corporate Authorised Representative of Future Superannuation Holdings Pty Ltd (ABN 90 167 800 580; AFSL 482684), as the Founder, Promoter and Investment Manager of the Future Super Fund (ABN 45 960 194 277; RSE Registration R1072914).