Responsible investing changes

(from 1 November 2024)

On 1 November 2024, the balance of your Spirit Super investment option(s) will be renamed and changed to align with investment options currently offered by CareSuper. This change will introduce changes to our approach to responsible investing and environmental, social and governance (ESG) considerations, including changes to exclusions.

Following the merger, CareSuper's intention is to assess and determine exclusions, our aggregate investment portfolio carbon emissions baseline, any interim targets and our emissions reduction roadmap to ensure that settings are fit-for-purpose for the merged fund's investment portfolio.

While responsible investing will form part of the merged fund's investment approach for all investment options, CareSuper will also offer a Sustainable Balanced option. Learn more about the new Sustainable Balanced option later in this document.

Spirit Super and CareSuper share a similar overarching approach and philosophy in relation to responsible investing. We believe that incorporating financially material ESG considerations into investment decision-making can help better manage risk and contribute to stronger investment returns in certain circumstances for our members. Furthermore, we believe that stewardship can assist with the careful and responsible management of our members' retirement savings.

As we bring the two funds together on 1 November 2024, the merged entity will need to assess our combined investment portfolio to ensure a smooth transition of responsible investing considerations, changes and exclusions for the merged fund. As such, there will be areas of Spirit Super's ESG priorities, which are reflected through our ESG targets, and Spirit Super's portfolio exclusions that will not be able to be maintained in their current (pre-1 November 2024) form. Spirit Super's current ESG targets and exclusion policy will not apply from 1 November 2024.

Determining responsible investing settings for the merged fund's investment portfolio will take time as, for example, we assess a new starting point (or baseline) for the carbon emissions of the aggregate investment portfolio formed from 1 November 2024. Over the course of 2025, we intend to work on actively developing emissions reduction targets and formulating strategies to help achieve these targets.

Please note it is not intended that the merged entity's responsible investing targets, strategies and exclusions will apply to the Direct Investment Option (where members choose their own investments) or to investments in a pooled fund or derivatives.

A summary of the key changes from the legacy Spirit Super's responsible investment approach from 1 November 2024 is provided in the following table:

	Spirit Super up to 31 October 2024	CareSuper from 1 November 2024
Whole of fund ESG targets	**Target 1**: Allocate more than 15% of our total investment portfolio to impact investments by 2030.	*(Removed)*
	Target 2: Reduce our total investment portfolio's attributable carbon footprint by 50% by 2030 (compared to a baseline as at 30 June 2022).	*(Removed)* *Following the merger, CareSuper's intention is to assess and determine our aggregate investment portfolio carbon emissions baseline, targets and our emissions reduction roadmap.*
	Target 3: Invest $1.5 billion or more in Australian small and medium-sized businesses by 2030.	*(Removed)*
Exclusions – within Australian and overseas shares asset classes	The following exclusions are implemented[1] either through customised MSCI benchmarks or through exclusion clauses within Investment Management Agreements within Australian and international shares managers:[2]	CareSuper aims to exclude the following investments from our Australian and overseas listed shares asset classes, for our Pre-mixed and Asset class investment options:
	– **Tobacco**: Any company whose primary business is the manufacture of tobacco, as defined by the MSCI GICS sub-industry "Tobacco"	*(No change, but wording is expressed differently)* – **Tobacco**: Companies that are classified by the GICS as belonging to the "tobacco" sub-industry – defined as manufacturers of cigarettes and other tobacco products[3]
	– **Thermal coal**: Any company primarily involved in the production and mining of coal in the GICS sub-industry "Coal and Consumable Fuels".	*(Removed)*
	– **Controversial Weapons**: Any company which has any ties to cluster munitions, landmines, biological / chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments.	*(Removed)*
Exclusions – within direct holdings in infrastructure, property and private equity	With respect to direct holdings in infrastructure, property, and private equity, we prohibit any new investments in companies primarily involved in the production, combustion or transmission of fossil fuels.	*(Removed)*

Notes:

1 Spirit Super is unable to exclude thermal coal from one legal pooled fund investment at this time.
2 Investment Management Agreements are for mandates and not for pooled funds.
3 The merged entity's external investment managers use data from GICS to identify companies falling within the GICS tobacco sub-industry 30203010 (manufacturers of cigarettes and other tobacco products). More information about the GICS system can be found here.

Important information

Please note that the merged entity's responsible investing approach that will apply from 1 November 2024 is subject to change. We may provide updated information about the responsible investing approach, including as the merged entity works on developing its approach on our website.

Please also note that CareSuper's responsible investing approach from 1 November 2024 cannot and does not apply to the Direct Investment Option (DIO), because the DIO allows members to select their own shares, ETFs, listed investment companies and term deposits. As the DIO investments are selected by the member rather than by CareSuper and/or external investment managers, ESG integration and stewardship cannot be and is not undertaken for investments within the DIO.

Sustainable option

(from 1 November 2024)

On 1 November 2024, Spirit Super's Sustainable option will be renamed and changed to align with the Sustainable Balanced option (SBO) currently offered by CareSuper.

Spirit Super and CareSuper share a similar overarching approach and philosophy in relation to responsible investing. We believe that incorporating financially material environmental, social and governance (ESG) considerations into investment decision-making can help better manage risk and contribute to stronger investment returns in certain circumstances for our members. Furthermore, we believe that stewardship can assist with the careful and responsible management of our members' retirement savings.

A summary of the key differences between Spirit Super's Sustainable option and CareSuper's Sustainable Balanced option (that will apply from 1 November 2024), as it relates to responsible investing, is provided in the table below. Full details of the current CareSuper Sustainable Balanced option's investment strategy and asset allocation is available at caresuper.com.au

	Spirit Super up to 31 October 2024	CareSuper from 1 November 2024
Responsible investing features	Tilt towards investment managers in the Australian and overseas shares asset classes that we consider strongly integrate ESG into their security selection and investment processes.	The SBO's main point of difference (compared with our other pre-mixed options) is that its Australian and overseas listed shares asset classes have a more explicit focus on environmental and social matters. This is targeted through: – applying negative screening criteria (to aim to exclude investments in certain listed companies, where their involvement in, or revenue from, certain business activities meets specific thresholds for exclusion – refer to additional information below) and – our external investment managers considering positive environmental and social themes when selecting certain investments (refer to additional information below).
	Tilt towards investment managers in the Australian and overseas shares asset classes that are expected to deliver lower carbon emissions exposure than their relevant benchmark.	*(Removed)*
Exclusions – within Australian and overseas shares asset classes	The following exclusions are implemented[1] either through customised MSCI benchmarks or through exclusion clauses within Investment Management Agreements within Australian and international shares managers:[2]	Within its Australian and overseas listed shares asset classes, the SBO aims, through the application of negative screening criteria, to exclude investments in certain listed companies where their involvement in, or revenue from, certain business activities meets specific thresholds for exclusion. However, for clarity, investments are permitted in companies whose involvement in or revenue from these business activities does not meet the relevant threshold for exclusion. Additionally, CareSuper's negative screening criteria are not applied to investments in a pooled fund or to derivatives.[3]
	– **Tobacco**: Any company whose primary business is the manufacture of tobacco, as defined by the MSCI GICS sub-industry "Tobacco"	*No change, but wording is expressed differently.* Refer to additional information below.
	– **Thermal coal**: Any company primarily involved in the production and mining of coal in the GICS sub-industry "Coal and Consumable Fuels".	*Change in definition and revenue threshold for exclusion.* Refer to additional information below.

	Spirit Super up to 31 October 2024	CareSuper from 1 November 2024
	– **Controversial Weapons**: Any company which has any ties to cluster munitions, landmines, biological / chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments.	*Change in definition.* Refer to additional information below.
		The SBO has a number of other negative screening criteria. Refer to additional information below.
Exclusions – within direct holdings in infrastructure	Excludes assets in the infrastructure asset class that are primarily involved in fossil fuel production, combustion or transmission.	*(Removed)*

Notes:

1 Spirit Super is unable to exclude thermal coal from one legal pooled fund investment at this time.

2 Investment Management Agreements are for mandates and not for pooled funds.

3 The SBO applies negative screening criteria only to the Australian and overseas listed shares asset classes. This means we cannot rule out any indirect exposure to restricted business activities through investments in a pooled fund or derivatives, or exposure in other asset classes, such as unlisted asset classes.

Additional information about CareSuper's Sustainable Balanced Option

Listed shares negative screening criteria

Within its Australian and overseas listed shares asset classes, the SBO aims, through the application of negative screening criteria, to exclude investments in certain listed companies where their involvement in, or revenue from, certain business activities meets specific thresholds for exclusion. However, for clarity, investments are permitted in companies whose involvement in or revenue from these business activities does not meet the relevant threshold for exclusion. Additionally, CareSuper's negative screening criteria are not applied to investments in a pooled fund or to derivatives, as described above.

The CareSuper investment team creates a list of companies that meet the threshold for exclusion under our negative screening criteria ("excluded companies list"), and updates it every six months, as described in the explanatory notes below. Following these updates, we inform our external investment managers within the Australian and overseas listed shares asset classes which listed shares are required to be excluded from new and existing investments in listed companies. The SBO's listed shares investments are periodically monitored by our custodian to seek to ensure holdings in companies meet our negative screening criteria. As noted above, CareSuper's negative screening criteria are not applied to investments in a pooled fund or to derivatives.

However, circumstances may arise from time to time which result in a holding in a company not meeting our negative screening criteria (for example, if a company's business activities change over time, in between the six-monthly points of time at which our excluded companies list is updated, or due to data accessibility or accuracy issues or external service provider errors as described in the explanatory notes below). We require all of the SBO's external investment managers within the Australian and overseas listed shares asset classes to notify us if they become aware that their portfolio holds investments in listed companies that do not meet our negative screening criteria, based on our excluded companies list. If this occurs, we require our external investment managers to divest the relevant listed shares from the SBO as soon as practicable after the identifying the issue (typically within three weeks, considering liquidity constraints).

Reminder – the SBO applies negative screening criteria only to the Australian and overseas listed shares asset classes. This means we cannot rule out any indirect exposure to restricted business activities through investments in a pooled fund or derivatives, or exposure in other asset classes, such as unlisted asset classes.

For investments in overseas and Australian listed shares (excluding pooled funds), the following negative screening criteria[1,2,4] apply (effective as at 1 November 2024):

Through the application of these negative screening criteria, we aim to exclude from the SBO investments in certain listed companies, where their involvement in, or revenue from, certain business activities (called 'restricted activities' in the table below) meets the stated thresholds for exclusion. Please read the important explanatory notes below to aid your understanding of our negative screening criteria and how they are applied.

Restricted activity	Description	Threshold for exclusion[3]
Tobacco manufacture	Companies classified in the Global Industry Classification Standard (GICS) as belonging to the sub-industry "Tobacco", which it defines as manufacturers of cigarettes and other tobacco products.	Companies classified in GICS as belonging to the sub-industry "Tobacco", which it defines as manufacturers of cigarettes and other tobacco products.
Civilian firearms manufacture	Companies that manufacture firearms and small arms ammunition for civilian markets	Companies involved in the stated activities, based on the most recent year of financial reporting from MSCI ESG Research.
Controversial weapons (sales and production)	Companies directly involved in manufacturing or selling cluster munitions, landmines, biological/chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments. Companies directly involved in the production of nuclear weapons or services provided for such products.	
Child labour	Companies MSCI flags as having been the subject of alleged child labour controversies within their direct operations or supply chains in the past three years.[5] Further information on MSCI's process for identifying controversies is available in their methodology document.	Companies which are the subject of the stated allegations within the past three years, as identified by MSCI ESG Research.
Thermal coal production	Companies generating revenue directly from thermal coal mining (including lignite, bituminous, anthracite, and steam coal) and its sale to external parties. This screen does not flag revenue from metallurgical coal; coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined thermal coal; and revenue from coal trading.	Greater than 10% revenue (reported or maximum estimated)[6] in the most recent year of financial reporting from MSCI ESG Research.
Oil and gas – extraction, production, refining, distribution/retail, pipelines and transport, trading	Companies that generate combined revenue directly from: - Extraction and production - Refining - Distribution/retail - Pipelines and transport - Trading of conventional and unconventional oil and gas.	
Power production from thermal coal, oil and gas	Companies that generate revenue from thermal coal, liquid fuel, and natural gas-based power generation.	
Power production from nuclear sources	Companies that generate revenue directly from nuclear-based power generation.	Greater than 30% revenue (reported or maximum estimated)[6] in the most recent year of financial reporting from MSCI ESG Research.
Palm oil – less than 80% RSPO certified land	Companies that produce palm oil that have less than 80% of their land certified by Roundtable on Sustainable Palm Oil (RSPO).	Companies that meet the stated description in the most recent year of financial reporting from MSCI ESG Research.

For investments in Australian listed shares only, the following additional negative screening criteria[1,2,4] apply (effective as at 1 November 2024):

Restricted activity	Description	Threshold for exclusion[3]
Intensive animal farming[7]	Australian companies that directly produce products using methods involving intensive animal farming operations.	Greater than 10% revenue (reported or maximum estimated) in the most recent year of financial reporting as assessed by our external investment managers.
Animal testing (cosmetic)	Australian companies that directly produce cosmetic products that are tested on animals.	
Live animal exports	Australian companies that directly engage in live animal export operations.	
Gaming	Australian companies that operate gambling facilities such as casinos, racetracks, or other betting establishments.	Greater than 10% revenue (reported or maximum estimated)[6] in the most recent year of financial reporting from MSCI ESG Research.
Pornography	Australian companies that produce adult entertainment materials.	

Explanatory notes for the negative screening criteria set out in the tables above:

1. The list of negative screening criteria is subject to change. We will update our website to reflect any changes made. In the event of a materially adverse change, we will notify members in accordance with our disclosure obligations.
2. Implementation of negative screening criteria may be impacted by data accessibility or accuracy issues or external service provider errors, potentially resulting in inadvertent holdings in excluded investments.
3. We use ESG data from the MSCI Business Involvement Screening Research ("MSCI ESG Research"), using MSCI's definitions, to identify excluded companies for all restricted activities, except for tobacco manufacture (which uses GICS' classification system to identify companies belonging to the sub-industry "Tobacco" (defined as manufacturers of cigarettes and other tobacco products)), and intensive animal farming, animal testing (cosmetic) and live animal exports (where excluded companies are identified by our external investment managers). The "most recent year of financial reporting from MSCI ESG Research" refers to the most recent year of financial reporting as recorded in MSCI ESG Research. Our list of companies that meet the thresholds for exclusion under our negative screening criteria is updated by the CareSuper investment team every six months, using data sourced from MSCI ESG Research, GICS (for the tobacco manufacture restricted activity) or, in the case of the intensive animal farming, animal testing (cosmetic) and live animal exports restricted activities, using information provided by our external investment managers.
4. Exclusions are implemented by our external investment managers and monitored by our custodian and the CareSuper investment team by comparing holdings against CareSuper's current excluded companies list that is updated every six months.
5. When MSCI flags a company as 'having been the subject of alleged child labour controversies' it then monitors the extent to which the allegation has been addressed and/or resolved. The assessment of the controversy case status is based on the remedial action taken by involved entities, as reported in public sources. Concluded cases (for example, those resolved by through legal processes) are eventually assessed as 'archived' and removed from companies' assessment and profiles. For further information on MSCI's process, please see their methodology document.
6. MSCI ESG Research's revenue information is based on the most recently reported company data and is provided by MSCI for companies identified as being involved in the activities covered by the relevant business involvement screen. MSCI may use one of several approaches to determine revenue calculations, depending on the availability of information. Full details on MSCI's approach to calculating revenue are available in MSCI's Business Involvement Screening Research Methodology.
7. Our external investment managers in the Australian listed shares asset class for the SBO conduct research (either in-house or using an external ESG-focused screening tool) on each company's activities to decide whether the company's activities include intensive animal farming operations, as defined by the investment manager.

Listed shares positive environmental and social themes

Our external investment managers for the SBO's Australian and overseas listed shares asset classes consider positive environmental and social themes when selecting certain investments.

The external investment managers use their own methods (rather than taking the same approach) to review listed companies across a range of business activities. While the external investment managers' processes and applications differ, examples of their methods to consider positive environmental themes in the investment selection process include:

1. Identification of qualitative positive environmental and social themes

External investment managers define positive environmental and social themes in their own way, using their own processes and ESG expertise. Using these definitions, external investment managers may then seek to identify companies that in their view can contribute to positive environmental and social themes. For example, when seeking to identify companies that can contribute to these positive themes, external investment managers may consider:

- business activities which actively address certain social and/or environmental themes, such as improvements in education, greenhouse gas emissions reduction, or healthcare; or
- companies which generate a certain proportion of revenue from products and/or services in areas such as renewable energy, efficient irrigation, or the circular economy.

2. Positive screening using ESG scores

An 'ESG score' is a measurement or evaluation of a company's performance with respect to one or many ESG issues (such as energy and water efficiency, Board diversity, or employee health and safety metrics). These may be created by expert service providers or by external investment managers using an in-house framework.

If using ESG scores as a positive screening tool to consider positive environmental and social themes when selecting certain investments, our external investment managers may employ one or more of the following approaches:

- Select listed companies such that the external investment manager's portfolio's overall ESG score (that is, the weighted combination of ESG scores of all shares held) is higher than the ESG score of the market benchmark relevant to their investment strategy.
- Choose listed companies with an individual ESG score greater than the relevant benchmark's average ESG score.

3. Measuring contribution to Sustainable Development Goals (SDGs)

The United Nations Sustainable Development Goals (SDGs) is a set of 17 goals aimed at addressing global challenges across a range of ESG-related matters. For more information on the SDGs, go to https://www.un.org/sustainabledevelopment/sustainable-development-goals/

If using contribution to SDGs as a way to consider positive environmental or social themes when selecting certain investments, our external investment managers may employ one or more of the following approaches:

- Use information from a third party research provider to analyse the portfolio's aggregate contribution to some or all of the SDGs.
- Use their own proprietary research to determine how much they consider an individual company contributes to some or all of the SDGs.
- Select companies that they assess to have a net positive alignment with one or more of the SDGs.
- Construct a portfolio that they assess to have a net positive alignment with one or more of the SDGs.

While managers may aim to identify certain investments they consider to be aligned with or contribute to positive environmental and social themes, this does not mean that every company held, and all components of a company's underlying business activities, will be assessed for, or contribute towards, positive environmental and social themes. For example, an individual company could be considered by the investment manager to have a combination of favourable and less-favourable ESG attributes, but be assessed overall to align with or have a positive contribution from an ESG perspective to the manager's objectives.

In order to construct a portfolio in members' best financial interests, some external investment managers may choose to hold companies that they consider do not contribute individually to positive environmental and social themes, but do help to create a balanced portfolio which they assess as meeting their overall ESG goals. The extent to which positive environmental and social themes are incorporated into the external investment managers' investment decisions can vary between each external investment manager, within the context of aiming to achieve their financial performance objectives.

In helping us to monitor how our external investment managers have considered positive environmental and social themes when selecting certain investments in listed companies for their portfolios, we periodically discuss with them and review portfolio information that may include manager reporting of the overall portfolio's ESG characteristics.