Sustainable Investment Approach

Slate

31 July 2024

The Sustainable Investment Approach (SIA) forms part of the Product Disclosure Statement (PDS) issued on 25 July 2024.

The information in this SIA is general information only and does not take account of your personal financial objectives, situation or needs. You should obtain financial advice that is tailored to your personal circumstances before making a decision about Slate Super.

The information in this SIA was up to date at the time of issue. We may change or update the information in the SIA from time to time. Where the change in information is not materially adverse, the updated information can be obtained from our website or by contacting us. You may request an electronic or paper copy of this SIA and any updated information at any time, free of charge. This SIA can only be used by people receiving it (including electronically) in Australia. Applications for membership of Slate Super from outside Australia will not be accepted.

The material contained in this document is based on information received in good faith from sources within the market and on our understanding of legislation and government press releases at the date of publication which we believe to be reliable and accurate. Neither Diversa Trustees Limited (Trustee), Mercer or any of their related parties accept any responsibility for any inaccuracy.

The Sustainable Investment Approach is issued by Diversa Trustees Limited (ABN 49 006 421 638; AFSL 235153; RSE Licence L0000635) ("the Trustee") as trustee of Slate Super, a sub-plan of the Grosvenor Pirie Master Superannuation Fund - Series 2 (ABN 32 367 272 075; RSE Registration R1001204) ("GPMSF-2").

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Where relevant and aligned with achieving applicable investment objectives, the Trustee has adopted a sustainable investment approach for Slate Super. The sustainable investment approach is made up of a number of activities designed to integrate environmental social and governance considerations into the Trustee's investment selection and monitoring process (ESG Activities). The ESG activities are set out below:

- Integrating Environmental, Social and Governance (ESG) considerations into investment processes (ESG Integration);
- Seeking to make investments linked to sustainability-themes (Sustainability-themed investing);
- Integrating climate change considerations into investment processes (Climate change);
- Undertaking active ownership activities, which encompasses engagement and proxy voting (Active Ownership); and
- Seeking to avoid certain investments (Exclusions).

The Trustee has appointed Mercer Investments (Australia) Limited (ABN 66 008 612 397) (Mercer) to undertake the ESG Activities and to provide the Trustee with quarterly and annual reporting on performance.

Important Information

The below information regarding ESG integration only applies to securities held directly by Mercer's custodian (direct holdings). The below table presents an example of the percentage split between direct and indirect holdings within Slate Super's investment options. The percentage of indirect holdings for each investment option in the following example are not subject to ESG integration. It's important to note that the information in the example is based on the date this SIA was issued. Additionally, the percentages shown in the example below have been rounded up to the nearest whole number. There may be fluctuations in variances between the percentage of direct and indirect holdings at any time. We will we publish this information on the website periodically at slate.co. For more information refer to section 4 of the Additional Information Booklet.

Direct Holdings				Indirect Holdings			
Sand	Coral	Ocean	Sky	Sand	Coral	Ocean	Sky
80%	85%	76%	83%	20%	15%	24%	17%

ESG Integration

Where relevant and aligned with achieving investment objectives, Mercer appoints investment managers who assess and reflect ESG risks and opportunities when they select securities or assets and construct portfolios. Mercer acknowledges that this does not occur in every case as Mercer takes the view that the degree of relevance or materiality varies across asset classes and the type of investment strategy. Examples of ESG factors that may be considered by Mercer's appointed investment managers are shown below:

Environmental
Climate Change
Water Security
Waste and Pollution
Biodiversity
Social
Health and Safety
Labour Standards and modern slavery, including supply chains
Human Rights
Demographics/consumption
Governance
Board diversity, composition and effectiveness
Executive remuneration
Conduct, culture and ethics
Shareholder rights

ESG ratings

An investment manager's ESG capabilities and the extent of ESG integration within a manager's strategy form an important part of Mercer's investment manager selection process. This process includes drawing on the ESG ratings and commentary ('ESG Ratings') from the Mercer Manager Research team. The ESG Ratings range from ESG1 being the highest, to ESG4 being the lowest, after undertaking a largely qualitative assessment of an investment manager's ESG capabilities based on desk-based research, as well as meeting with key investment and ESG personnel. Where relevant and aligned with the investment strategy and objectives[1], Mercer has a preference to appoint investment managers with higher ESG Ratings, rather than lower ESG Ratings.

Sustainability-themed investing

Mercer believes that including some exposure to investment managers that identify longer-term environmental and social themes and seek to invest in companies delivering solutions to environmental and social challenges, may lead to improved risk management and new investment opportunities. Examples of these sustainability-themed investment opportunities could be safe and accessible water, sustainable agriculture, renewable energy, green buildings and lower carbon tilted portfolios.

Mercer's investment manager selection and monitoring processes, as well as strategic asset allocation reviews, may consider these types of exposures when making decisions about portfolio construction, where this is aligned with the investment strategy and objectives of the Fund.

Climate change

Mercer's global investment beliefs reflect that climate change poses a systemic risk. This is driven by the potential financial impacts from both the physical risks in increased average global temperatures and the associated transition to net zero greenhouse gas emissions.

In 2021, Mercer established a target to achieve net zero absolute portfolio carbon emissions by 2050[2] for all assets under management in Australia ('Net Zero Target'). Mercer also established an expectation that portfolio carbon emissions would reduce by 45% by 2030 from 2020 baseline levels[3].

[1] Note there are some strategies where the ESG Ratings are not applicable as ESG integration is not expected to feature within that investment process.

[2] Defined as absolute carbon emissions, per $M of FUM and Scope 1&2 for the Mercer Australia investment funds in aggregate and each diversified fund, where Mercer has discretion for asset allocation.

[3] Per dollar of assets under management.

The Net Zero Target is based on the belief that it is likely to be in the best long-term financial interests of investors. The Net Zero Target draws on current climate science, international government policy responses and the response by companies in the real economy. It relies upon several key assumptions:

- The prevalent climate science at the time the target was set, recommending a net zero target date of 2050.
- Mercer's climate scenario analysis, undertaken three times since 2015, indicating that a 2°C or below scenario is in investors' best interests and that aligning with this transition scenario does not present additional long-term downside risk if another scenario eventuates.
- The availability of sufficient investment strategies, solutions, asset-level climate data and industry frameworks that allow investors across asset classes to decarbonise while meeting investment objectives.
- Our discussions with many investment managers about their ability to deliver on investment objectives while aligning with the net zero target.
- A staged transition across different asset classes and strategies based on underlying sector exposures and liquidity considerations.

The Net Zero Target is expected to be met by following a climate transition plan for Mercer ('the Climate Plan'), which aims for:

- An approach to decarbonisation that is broadly aligned with the well below 2°C commitment within the Paris Agreement[4], but also accounts for the transition in the real economy and understands the different transition capacities by asset class, given liquidity and sector exposures.
- A reduction in atmospheric carbon emissions, not just portfolio carbon emissions intensity, measured by absolute emissions per $M invested, also referred to as a carbon footprint.
- An approach that encompasses integration, sustainability themed investment[5] and active ownership activities.

Progress towards achieving the stated target will be monitored on a regular basis, typically annually, considering absolute carbon emissions and carbon intensity reductions, together with transition capacity applying Mercer's proprietary Analytics for Climate Transition ('ACT') tool. Climate scenario analysis, leveraging Mercer's partnership with Ortec Finance, is also an ongoing process and is typically undertaken every two to three years.

The ACT tool assesses portfolios for climate transition risk across a spectrum, with the companies within portfolios categorised as those that have high emissions and limited capacity to transition ('grey' category) to investments that have low emissions and high capacity to transition ('green' category) and the range between the two ('in-between' categories).

Active Ownership

Share Voting

Proxy voting decisions and execution is outsourced to the listed equity investment managers. An investment manager's capability in active ownership is typically evaluated as part of the investment manager selection process, to seek alignment with our commitment to good governance and long-term value creation. Mercer expects appointed listed equity investment managers to establish their own voting policy that sets out the principles and guidelines under which rights to vote are exercised.

Mercer engages the services of a third-party proxy advisor to provide proxy voting research and facilitate the collation and reporting of proxy voting data.

From time to time, listed equities may be held in a transition account where the transition manager does not have a voting policy or capability. In these instances, Mercer will seek to vote the shares in the transition account in alignment with the recommendations of the proxy advisor.

Mercer retains the right to instruct the listed equity investment managers on how to vote the shares in Mercer's account. In determining when to do this and how to vote, Mercer may consider the proxy advisor's recommendation, the view of the listed equity investment managers and best practice industry standards and governance guidelines. Mercer may also conduct their own research or engage with the relevant company to inform a decision.

Vote exceptions

The objective is to vote all listed shares on a best endeavours basis. However, there may be circumstances where despite best endeavours of the investment manager, they may be unable to participate in a vote. There may also be circumstances where the investment manager or Mercer decide that abstaining from a vote may be in the best interests of investors.

[4] We note that the 2015 Paris Agreement has a core goal to limit global temperature increase to well below 2 degrees Celsius above pre-industrial levels, while pursuing efforts to limit the increase to 1.5 degrees.

[5] Our sustainable-labelled funds may also have specific targets for carbon intensity to be lower than a relevant benchmark, which are detailed in the relevant offer document.

Engagement

Engagement may be undertaken with companies or policymakers via appointed investment managers, collaborative initiatives and / or directly by Mercer. Company engagement has the potential to enhance the long-term value of the company by seeking to address material ESG matters of concern.

Via appointed investment managers, collaborative initiatives and /or directly, Mercer may also engage with regulators, governments and other policy makers to recommend changes or express views on sustainable investment regulatory regimes or policy positions where this is deemed important to protect the rights, or enhance the interests, of investors.

Examples include engagement on key sustainable investment topics (such as climate change or modern slavery) or when matters of material ESG concern at a company level (such as a high severity incident under the United Nations Global Compact principles) become known.

Mercer may use a range of inputs to determine when engagement may be warranted. These include but are not limited to ESG research from an external provider, information gained through collaborative initiatives, Mercer's own sustainable investment research or tools, information gained through engagement with investment managers or ESG portfolio analysis.

Disclosures

Mercer makes the voting results available via their website (to the extent that these are available) on a six-monthly basis, within three calendar months of the end of the six-month period. See: multimanager.mercer.com.au/funds/sustainable-investment.html.

Exclusions

In broad terms, Mercer's ability to apply the exclusions criteria (as described below) is generally determined by the nature of the holdings, specifically whether the holdings are 'direct' or 'indirect':

- Direct Holdings generally means securities held directly by Mercer's custodian. Mercer or the appointed investment manager, generally control the way investments are managed for Direct Holdings. Exclusions apply to Direct Holdings, subject to exceptions detailed below.
- Indirect Holdings generally mean securities that are not directly held by Mercer's custodian. These include securities held within a Collective Investment Vehicle ('CIV'), derivatives, exchange traded vehicles or other structures where Mercer or the appointed investment manager do not control the way assets are managed. Exclusions do not apply to Indirect Holdings.

The following exclusions apply to the Direct Holdings of the Funds ('Exclusions Criteria'), unless an exception as noted on the following page or other factors beyond Mercer's control mean they are not possible to apply.

Exclusions Criteria

- Controversial weapons, means companies that:
  - Manufacture whole weapons systems, or delivery platforms, or key components that were developed or are significantly modified for use in cluster munitions, anti-personnel landmines, biological or chemical weapons.
  - Have involvement* in the production or retailing of automatic or semi-automatic civilian firearms and/or ammunition.
- Tobacco companies, means companies that:
  - Have involvement* in the production of tobacco, manufacture of nicotine alternatives or tobacco based products (regardless of revenue), including subsidiaries and joint ventures. Nicotine alternatives and tobacco based products include, for example, nicotine vaping products such as 'vaping' devices and e-cigarettes.
  - Derive greater than 50% of revenue^ from tobacco-related distribution, wholesale or retail, and services such as marketing or supplying products necessary for production.
- Russian securities, means:
  - Shares – for publicly held companies within the country of incorporation or where the security has a primary listing in Russia, including their subsidiaries.
  - Fixed income – debt instruments issued by Russian companies (as per Shares definition above) plus Russian sovereign bonds and bonds issued by Russian government-related entities (Rouble or foreign currency denominated).
  - Securities issued by companies holding Russian cash or having Russian foreign exchange exposure such as forward foreign exchange contracts.
  - Securities issued by Russian companies sanctioned by Australia and related entities of sanctioned companies.
  - Private markets assets (including property, infrastructure and other real assets as well as private companies) domiciled in Russia.
  - Derivatives having Russian assets as primary exposure.

* Involvement is determined by the third party ESG research provider, typically assessed based on revenue derived from defined activities (no revenue thresholds).

^ Revenue is gross revenue in the last full financial year or, where not available, net revenues based on available company filings.

Exceptions

Mercer are generally able to apply exclusions only to Direct Holdings. This may mean that a Fund may have exposure to securities meeting the Exclusions Criteria for Indirect Holdings and/or in instances of exception as follows:

- **Transitional implementation for the Funds** – From time to time Direct Holdings may be transitioned into the Funds. In these instances, the investment managers of any transitioned Direct Holdings will be instructed to implement the Exclusions Criteria as market conditions allow and in the best interest of investors. The investment managers will require a transition timeframe to align with the Exclusions Criteria. This means that the Funds may contain exposures to securities that would otherwise meet the Exclusions Criteria for a period of time following the transition of Direct Holdings into the Funds.
- **Discretion** – If a Direct Holding meets an Exclusions Criteria Mercer's investment managers will generally be expected to divest the Direct Holding in a reasonable period of time and as market conditions allow. In limited circumstances, Mercer may allow the investment managers to continue to hold or acquire a Direct Holding that meets the Exclusions Criteria, for example where a movement above an exclusion threshold may be temporary, due to market movements or data lags, or where the Direct Holding is material to achieving the Fund's objectives. In such circumstances, Mercer will continue to monitor the exposure to the Direct Holding and instruct investment managers to divest only if it is in the best interests of Mercer's investors.
- **Other factors beyond Mercer's control** – There remain some factors beyond Mercer's control that mean a Fund may have exposure to a company or security that meets an Exclusions Criteria. These factors may include, for example, market conditions and liquidity, operational or structural constraints, different definitions and methodologies of research providers or where there is a change of a company's revenue mix over a reporting period, data or calculation methodologies.

Determining whether companies or securities meet an Exclusions Criteria

Mercer engage a third party ESG research provider to create a list of excluded securities ('Exclusion List') based on Mercer's Exclusions Criteria. The research provider has defined evaluation rules and methodology frameworks underpinning its assessment. The Exclusion List is typically updated on a quarterly basis and made available to the investment managers, as relevant. In addition to the Exclusion List, Mercer may provide the Exclusions Criteria to the investment managers and request them to seek to identify other securities that align with the Exclusions Criteria but that have not been captured on the Exclusions List. The custodian monitors compliance of Direct Holdings against the Exclusion List.