



Responsible Investment at  
Swinburne University of Technology

# Annual ESG Review

**Including Peer Benchmarking**

June 2021 | Public Version

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# Annual ESG Review

## Overview of Swinburne's Sustainability Approach

*This overview of Swinburne's approach to sustainability across the University as a whole was provided by University management and is included here for context only; Mercer was not involved in these activities and has not reviewed materials related to them.*

- Swinburne has a wide-reaching approach to managing Environmental, Social and Governance impacts across the University's activities, which focuses on:
  - Teaching and Learning
  - Research and Operations
  - Design, construction and management of campuses.
- This has been implemented through many initiatives such as:
  - Participating in the Science in Australia Gender Equity (SAGE) Pilot program
  - Establishing Swinburne's Reconciliation Action Plan (RAP) and employing an Aboriginal & Torres Strait Islander Employment Officer
  - Committing to the Australia / Pacific Regional Network of the Sustainable Development Solutions network and the global Green Impact program
  - Signing the Global Climate Emergency Letter and committing to 100% renewable energy procurement by 1 July 2020 and to be carbon neutral by 2025.
- Since 2016, Swinburne has also committed to managing ESG impacts through the RI Charter, which was revised in late-2019. In 2021, Swinburne re-appointed Mercer as its investment manager to manage its endowment investments.

# Annual ESG Review

## Objectives of the Review

Swinburne University's Responsible Investment (RI) Charter, approved by Council in December 2015 and updated in 2019, sets out the University's overall philosophy, commitment and methodology for the consideration of environmental, social and governance (ESG) factors with regard to its investments.

- Swinburne has committed to:
  1. The integration of Environmental, Social and Governance factors into their investment decision making process
  2. Active ownership through proxy voting and engagement (via their implemented consultant, Mercer) focusing on the key areas of i) Climate Change ii) Human Rights & Modern Slavery and iii) Sustainable Development
  3. Supporting innovation and sustainability within their investment portfolios where consistent with their risk and return objectives
  4. Exclusion of companies that are inconsistent with a sustainable future (specifically Tobacco companies, Controversial Weapons manufacturers, and carbon intensive Fossil Fuels)
  5. Transparency and disclosure including annual reporting on progress implementing the RI Charter as set out in our responsible investment implementation plan.
- This report presents analysis of Swinburne's portfolio assessed against the RI Charter and best practice.

*All analysis in this report is based on Actual Allocation data as at 31 December 2020, unless stated as 'Strategic Asset Allocation (SAA)'.*

# Annual ESG Review

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# 1. Executive Summary

## Overview of Swinburne's Position

### 1) Assessment of Responsible Investment Charter

- ✓ Swinburne's investments are aligned with all commitments within the RI charter.

### 2) Highlights and summaries of ESG Practices in Swinburne's portfolio

- ✓ Better than relevant benchmarks across all monitored **ESG metrics**, and for most metrics demonstrated year-on-year improvement.
- ✓ The overall portfolio **ESG rating** remains better than benchmark.
- ✓ All underlying funds have a **carbon intensity** below their respective benchmarks.
- ✓ Better than relevant benchmark exposure to **sustainability solutions** aligned with the SDGs.
- ✓ The portfolio is compliant with all **exclusions**, and the portfolio has no exposure to companies with red-flag rated modern slavery controversies.

# 2. ESG Ratings

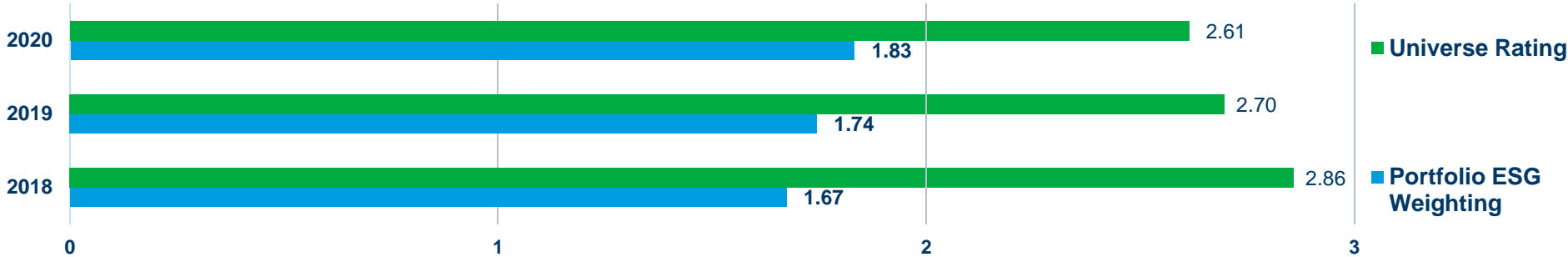
## Total Portfolio

Mercer’s ESG ratings reflect how well the managers integrate ESG into the investment process. ESG1 represents full integration of ESG throughout the investment process, and a strong commitment to active ownership across environmental (E), social (S) and governance (G) factors. ESG4 represents limited ESG integration and little to no commitment to active ownership. Ratings are assigned to individual investment products by Mercer’s independent global Manager Research team.

	2018	2019	2020	2020 Year on year	2020 Year on year (%)	2020 Swinburne vs Universe	2020 Swinburne vs Universe (%)
Weighted Average ESG Rating*	1.67	1.74	1.83	+0.09	+5%	-0.78	-30%

In 2020, the weighted average ESG rating of the total portfolio was 1.83, a slight deterioration from 1.74 in 2019.

The aggregate portfolio continues to significantly outperform the benchmark Universe ESG rating by 30% (Swinburne 1.83, benchmark 2.61).



Mercer \*Represents SAA of the aggregate fund

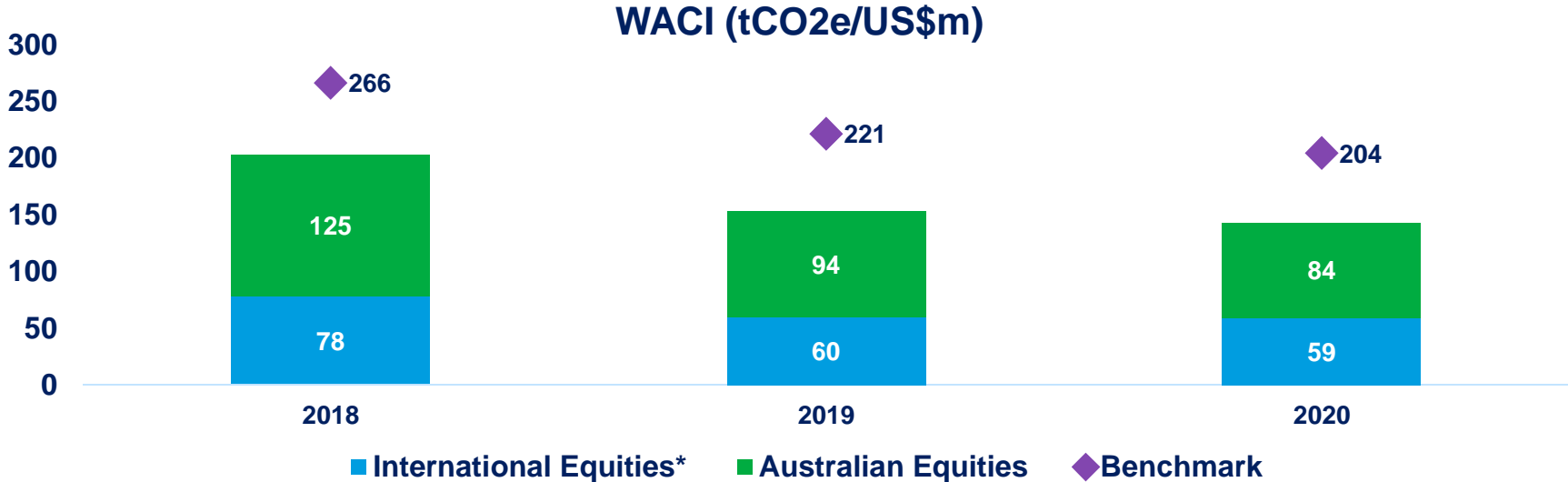
# 3. Carbon Footprint Listed Equity Portfolio

- ✓ All underlying funds have a carbon intensity below their respective benchmarks (analysis covers equity and fixed income).
- ✓ In 2020, the total weighted average carbon intensity (“WACI”) of the Australian equity portfolio was 13.2% lower year on year, and Global equity was 21.8% lower.
- ✓ Year on year comparison is not available for Fixed Income , but the WACI for the Fixed Income portfolio in 2020 is 32.4% below benchmark.

Year on year WACI:

**-13%**  
Australian Equities

**-22%**  
Global Equities



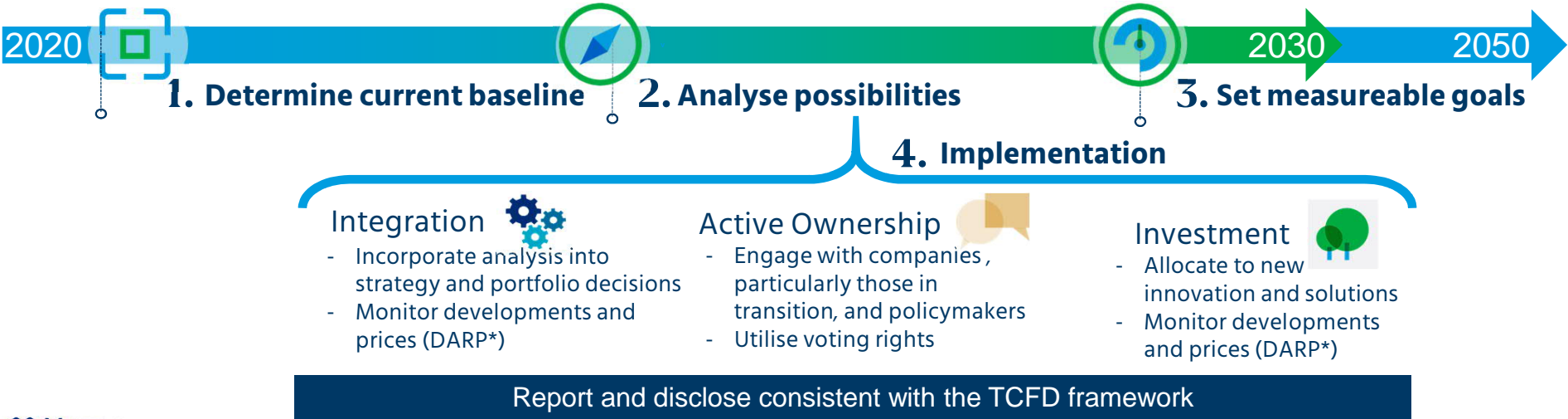
Based on data from MSCI ESG Research.  
The International Equities benchmark is MSCI World, and the Australian Equities benchmark is S&P/ASX300.

# 4. Mercer's Analytics for Climate Transition (ACT) Background

- The latest climate change project for the Mercer Funds in Australia is to establish a climate transition plan, drawing on Mercer's new framework and Analytics for Climate Transition (ACT).
- The focus is on genuine whole of economy and portfolio transition, not just emissions reductions, and thoughtful implementation in conjunction with our appointed managers across asset classes.



- The below provides an overview of the steps being considered, with further communication to come in late Q1 early Q2 2021.

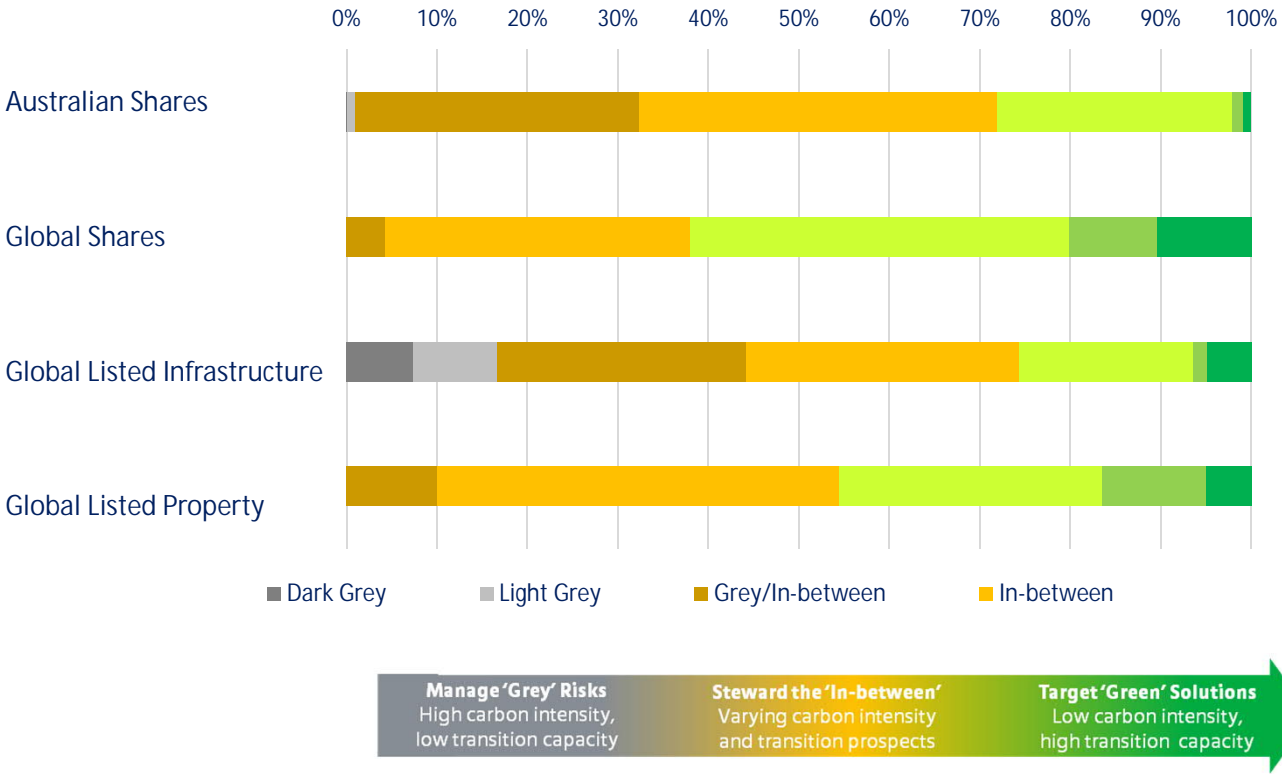


(\*DARP - Decarbonisation at the Right Price)



# 4.1 Analytics for Climate Transition Listed Equity Portfolio

Analytics for Climate Transition Results by Weight (%)



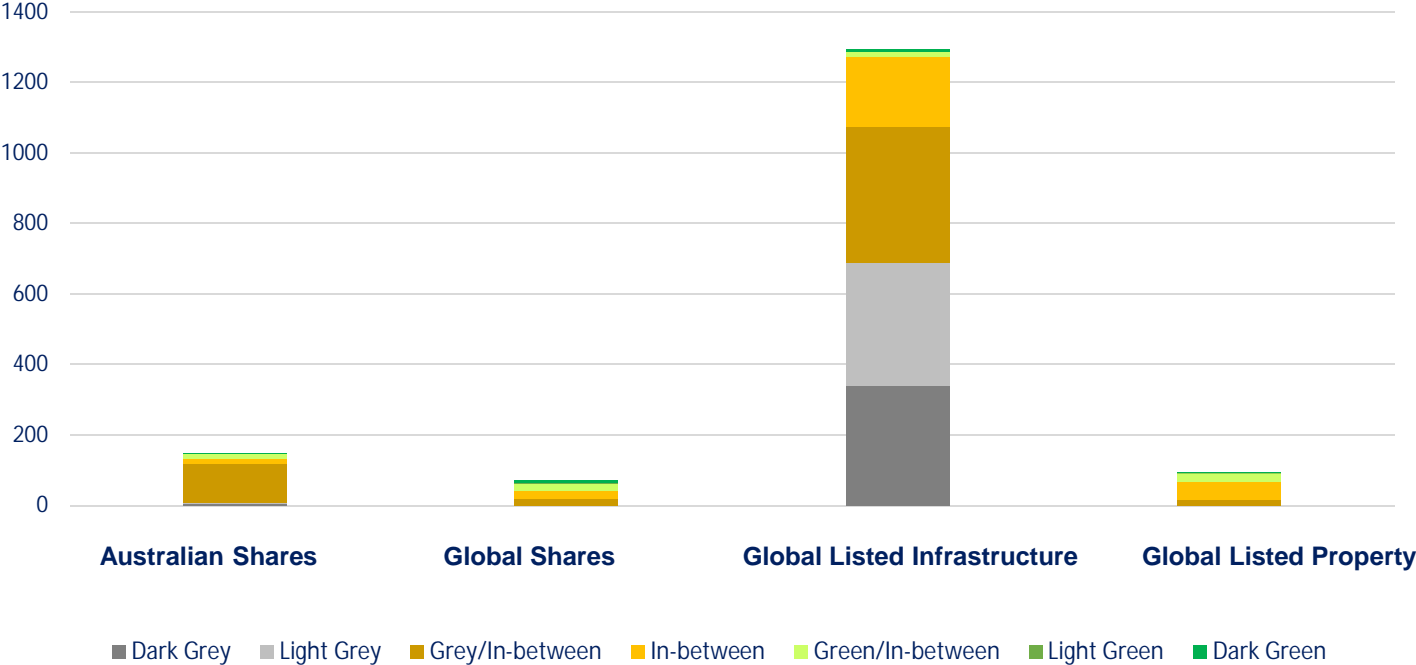
Based on Mercer’s new Analytics for Climate Transition (ACT) tool, the underlying companies in each Fund have been categorised according to how well they are positioned for the low-carbon transition along a spectrum from ‘grey to green’.

In summary, the fund(s) with the highest proportion of:

- **Grey assets** is Listed Infrastructure
- **Green assets** are Global Shares and Listed Property
- **In-between** assets with mixed transition capacity are the bulk of all portfolios

# 4.1 Analytics for Climate Transition Listed Equity Portfolio

Analytics for Climate Transition Results by Carbon Intensity  
(TCO2/\$M Rev)



The Listed Infrastructure fund has a carbon intensity many times that of the rest of Swinburne’s listed equity portfolio. The **Grey assets**, which account for 16.6% of the fund by weight are responsible for driving more than half (53.1%) of the fund’s carbon intensity.

# 5. Exclusions Criteria Compliance and Monitoring

## Tobacco, Controversial Weapons and Fossil Fuel Reserves

Swinburne University's Responsible Investment Charter states:

*"The University will consult with its advisers to determine... potential divestment processes in respect of companies that generate significant revenues from activities inconsistent with these aims, such as: Carbon Intensive Fossil Fuels (as defined by Thermal Coal and Tar Sands), Tobacco manufacturers and companies which derive revenue from other tobacco related business activities, and Controversial Weapons (as defined by cluster munitions, anti-personnel landmines, bio-chemical weapons and civilian firearms)"*

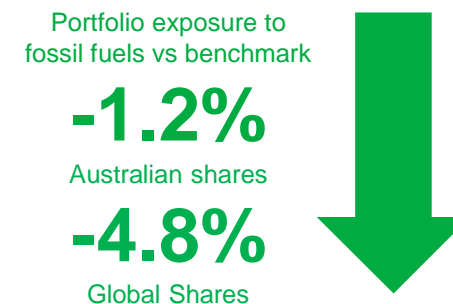
Swinburne's Resource Committee agreed the divestment objectives for the university, which on an annual basis will be monitored regarding listed equity exposure.

Analysis has been completed for Australian Shares, Global Shares, Global Listed Infrastructure and Global Listed Property, as at 31 December 2020:

- ✓ **The fund held no carbon intensive fossil fuels, tobacco producers, cluster munition manufacturers or landmine manufacturers as per the agreed definition.**
- ✓ **Swinburne's investments are in-line with its policy commitments of holding no prohibited investments.**

### ***A closer look at fossil fuel reserves...***

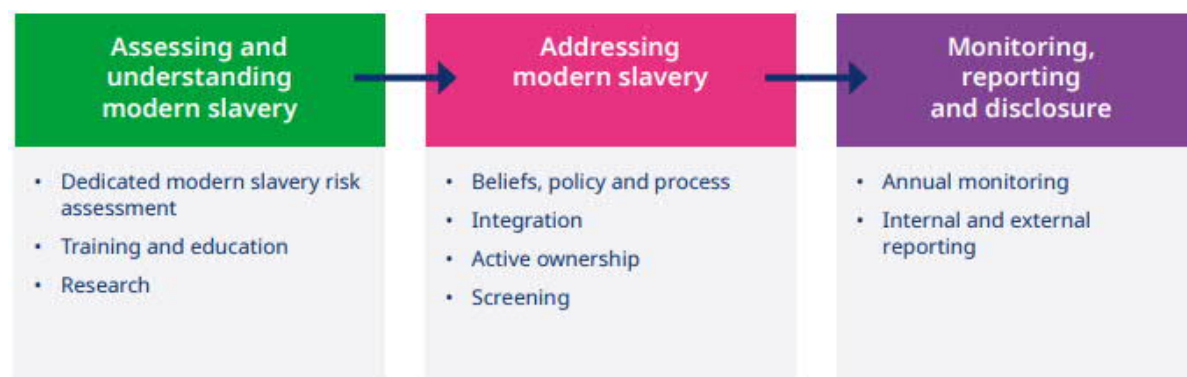
- In addition to the above carbon intensive fossil fuels exclusion screen, Mercer monitors investments in any company owning fossil fuel reserves (regardless of materiality) and tracks this metric annually using data provided by MSCI ESG Research.
- ✓ **As at 31 December 2020 all active funds held lower exposures to Fossil Fuel Reserves than their respective benchmarks. See graphic, right.**



## 6. Modern Slavery

### Assessing and addressing risk in the portfolio

- Mercer analysed the listed equity and fixed income funds for any red flag incidents in relation to modern slavery (aligned to UN Global Compact principles on forced labour and child labour).
- There were **no holdings with red flag incidents** found in any of the Mercer Funds.
- Mercer has also recently published our **Investment Approach to Modern Slavery** document.
  - This document sets out our commitments, our expectations of our managers, and provides a transparent look into portfolio modern slavery risk and the activities we have taken to assess and address these risks.
  - *Investment Approach to Modern Slavery [available online here](#).*



## 6.1 Summary of Swinburne's approach to managing modern slavery risk across the university

*This summary of Swinburne's approach to modern slavery risk management activity across the University as a whole was provided by University management and is included here for context only; Mercer was not involved in these activities and has not reviewed materials related to them.*

- Supplementing the university's commitment to sustainability as evidenced by our signing to the UN Sustainable Development Goals and commitment to be net zero by 2025, we have a focus on minimising the risk of modern slavery within our supply chains.
- The university is obligated under the Modern Slavery Act to publish a modern slavery statement annually, of which the first was published in June 2021 (available online [here](#)). The university will report annually ongoing.
- Within Swinburne University of Technology, actions undertaken include:
  - Analysis of Swinburne spend to understand risks across our supply chain
  - Embedded due diligence measures into our procurement policy and processes to identify and manage high risk
  - Development of modern slavery questionnaire, included in key market/tender events to evaluate modern slavery risks and actions
  - Education and engagement
  - Inclusion of modern slavery obligation in contract templates

## 6.1 Summary of Swinburne's approach to managing modern slavery risk across the university (cont.)

- Swinburne is working collaboratively with universities across Australia on a sector-wide solution to achieve efficiencies and enhance the impact of our efforts. Our Director of Sustainability & Procurement is Co-Chair of the Australian University Procurement Network Modern Slavery Working Group. Key initiatives through the sector group include:
  - Implementation of a modern slavery system that will provide improved transparency to modern slavery risks across the supply chain and coordinate action
  - Communications and education across the sector to raise awareness and upskill universities in addressing modern slavery risk
  - Developing a partnership with the Cleaning Accountability Framework (CAF) to support a CAF Certification model for cleaning and security services across university campuses
  - Establishment of an Academic Advisory Board, comprised of senior experienced academics across Australia, who are providing advice and guidance
  - Development of contract clauses, questionnaires, supplier code of conduct, and statement templates
  - Currently developing a sector response methodology to be used in response to any instances of modern slavery identified, including data analysis, supplier engagement, university education, communications etc.

# 7. Active Ownership & Engagement

## Proxy voting and manager engagement

Following discussions around active ownership as a form of ESG integration in Swinburne's portfolio we have provided some statistics around Mercer's 2020 active ownership practices.

### Proxy Voting

- ✓ In 2020, Mercer appointed CGI Glass Lewis as its proxy advisor, replacing ISS.
- ✓ Where shares are held directly by Mercer on behalf of Swinburne University via mandates, they are voted in line with Mercer's Sustainable Investment Policy which focuses on voting in the long term interest of shareholders, improving governance and encouraging transparency and disclosure, including around ESG issues.
- ✓ Mercer voted at 343 meetings in Australia and 3,532 overseas meetings, or **approximately 93% of meetings**. The full voting record is available online.

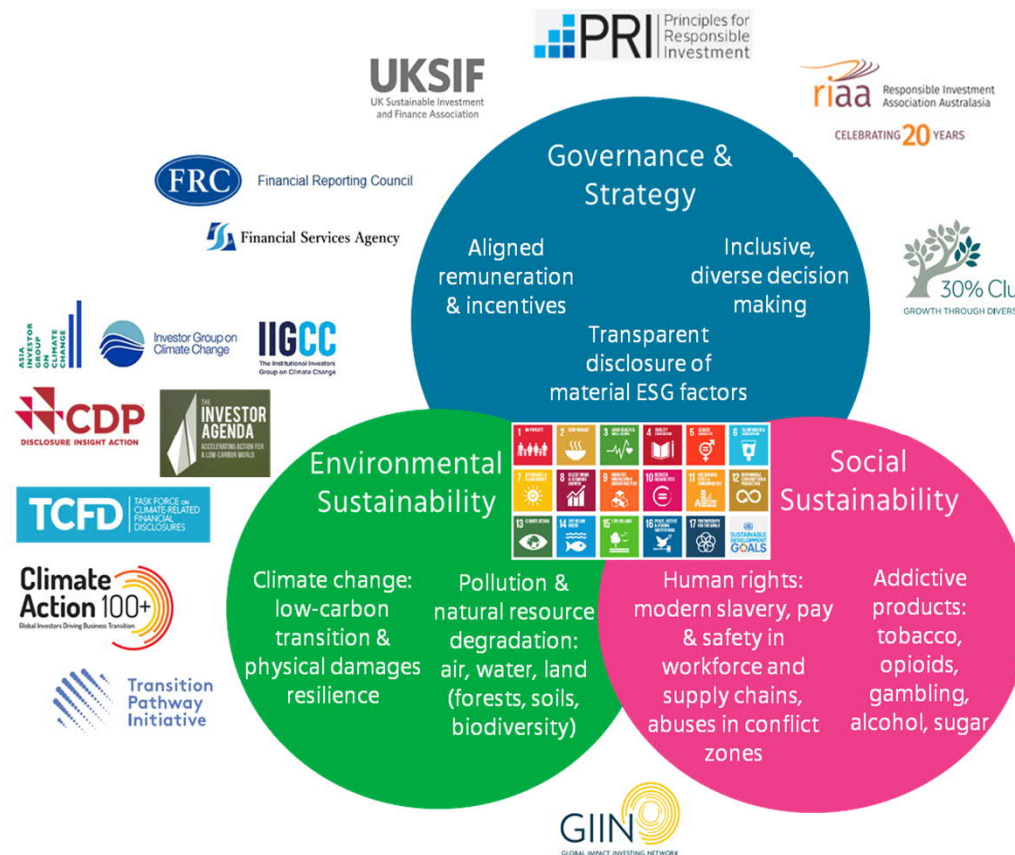
### Engagement with Managers

- ✓ Swinburne's underlying investment managers also engage companies on material ESG issues in order to reduce risk and unlock long-term value. In December 2020, Mercer surveyed managers across almost all asset classes on their engagement approach with investee companies, with an explicit focus on our three priority topics - **Climate Change, Modern Slavery, and Diversity**. The results of this survey are feeding into ongoing engagements with investment managers.
- ✓ Mercer has developed an engagement strategy focused on ESG4-rated managers.
- ✓ Mercer is involved in both direct and collaborative initiatives driving engagement beyond the portfolio.

# 7. Active Ownership & Engagement

## Mercer's significant engagement activities

- In 2020 Mercer launched an **Engagement Priorities Framework**. Our priority engagement topics are shown right, with the Australian focus on **climate change (environment)**, **modern slavery (social)**, and diversity and inclusion (governance).
- Mercer has established a cross-functional working group to build Mercer's **Modern Slavery program**.
- Mercer is involved in a number of collaborative initiatives driving ESG improvements throughout the portfolio, including **Climate Action 100+**, the **Transition Pathway Initiative**, and the **30% Club**.
- Mercer is also represented on the Board or key Working Groups of a number of responsible investment trade associations driving best practice in the field.





# 8. UN Sustainable Development Goals

## Overall Portfolio Alignment

Recent industry practice has seen funds, and ESG data providers, use the United Nations Sustainable Development Goals (SDGs) as a proxy for investments that are providing solutions to environmental and social sustainability challenges.

Using ISS, Mercer has mapped the portfolio holdings (where possible) to the SDGs. Mercer utilised available data to analyse SDG exposure for all funds within the Listed Equities asset classes.

Sustainable Investment Indicator	Total Portfolio
SDG Solutions	20.3%
\$ Value	\$53,758,817.
Based on ISS, and Mercer	

- ✓ 20.3% of Swinburne’s total portfolio is invested in sustainability solutions aligned with the SDGs.
  - ✓ Net 15.1% of Swinburne’s Listed Equities portfolio is invested in sustainability solutions, compared to 6.9% for the benchmarks.
- Whilst Swinburne’s portfolio exposure remains better than benchmark (for funds where benchmark exposure can be calculated), the year on year total portfolio alignment has dropped slightly from 22.7% in 2019.

**Note:** Benchmarks are ASX 300 for Australian SR Shares and MSCI World for Global SR Shares

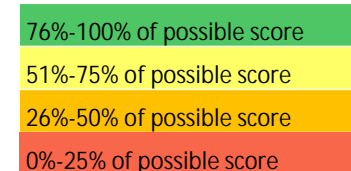
# 9. Peer Comparison

## Introduction and methodology

- The report is designed to help Swinburne ‘take an outside view in’ from a stakeholder point of view and as such is evaluated on **publicly available information only**. We draw on published policies, reports and examples or evidence of practice.
- RI practice among funds is an evolving area and hence this report is designed to update the Committee on current standard and best practice among peer university endowments.
- Many funds will take different approaches to ESG / RI. Not all approaches may be appropriate or suitable to all funds.
- In early 2021 Mercer revised its Peer Comparison methodology and tool to reflect the rising ceiling of best practice and the rising floor of basic expectations.
- The peer comparison now includes 38 indicators covering each institutions’ Responsible Investment approach, with a total possible score of 65.
- “Basic” RI indicators receive 1 point, whereas indicators of more advanced and more stretching RI approaches receive up to 3 points.
- The indicators are grouped by Mercer’s responsible investment 6-pillar framework:



## 9. Peer Comparison Results



The below results table shows a comparison of Swinburne University of Technology to eight relevant peers, based on publicly available information on responsible investment policies and practices covering investment activities.

Participant	ESG Governance and Strategy	Integration	Active Ownership	Thematic	Exclusions	Transparency	Total Score
Total Possible Score	24	13	12	3	3	10	65
Swinburne	17	10	11	3	2	7	50
Peer 1							
Peer 2							
Peer 3							
Peer 4							
Peer 5							
Peer 6							
Peer 7							
Peer 8							

**Note:** Peers have been anonymised and numerical scores removed, but colour indicators are based on actual research data.

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