



# Future Super Fund – Verve Super sub-plan

## Screening Approach and Product Mapping

Updated 1 August 2024

### Definitions

Future Super Investment Services (FSIS or the Investment Manager) uses Responsible Investing tools and processes to ensure Verve Super (the Fund) meets its ethical standards. This screening matrix sits alongside the mandate to invest in the best financial interests of members, which all super funds share.

This document explains how FSIS applies negative and positive screening processes to the Fund's investments to achieve this ethical mandate.

Term	Definition
Negative screening	A tool (or process) used to exclude a company or security from investment based on ethical, financial, geographical, or environmental criteria. The Investment Manager and its Investment Committee use a 'one strike and you're out' approach to negative screens, which means that failure on any relevant negative screen means that that company will not be invested in within that portfolio.
Positive screening	A tool (or process) used to gain or increase investment exposure to a particular attribute (such as good performance on gender equity measures) or activity (such as building renewable energy infrastructure).

### Screening approach.

FSIS considers the risk of members gaining investment exposure to an excluded (a.k.a. negatively screened) activity as well as the opportunities generated from gaining investment exposure to a positively screened activity. These risks and opportunities can be assessed on three dimensions: the nature of the activity, whether the exposure to the activity is direct or indirect, and the nature of the investment exposure.

#### The nature of the activity:

1. **Revenue generating activities:** occur as a result of the commodities, products, or services that make money for the company. The Investment Manager utilises a quantitative revenue threshold (as a % of total revenue of the company) to determine whether a company should be excluded from the investable universe. For example, a coal mining company generates revenue from the sale of coal. Coal is a fossil fuel and the revenue threshold is 0%, so the coal mining company would fail that screen and be excluded from the investable universe.
2. **Business processes, attributes, and governance standards:** these are exposures that occur as a result of how a business goes about its revenue generation. For example, choosing to only elect men to its Board of Directors, or not appropriately managing modern slavery risks within its supply chain. In these instances, evidence of these unwanted processes or attributes (such as having an all-male board) are used to assess whether a company is failing to meet best practice or ethical standards and thus should be excluded from the investable universe.

#### Whether the exposure is direct or indirect:

Direct exposure occurs when a company is directly involved in the excluded activity (whether revenue generating or through its business processes, attributes, or governance standards.)

At times a company may not be directly involved in an excluded activity, but its products or services indirectly perpetuate or are reliant upon that excluded activity. For example, a railway company is not directly involved in the fossil fuel industry, however if that railway company owns and operates a train line whose primary purpose is to link a coal mine to a port, then these business activities are closely tied to the fossil fuel industry; it both helps support the perpetuation of these activities, as well as attracts risks that if fossil fuel activities cease, then its profits and assets may be at risk.

The Investment Manager will assess whether a company or security should be excluded from the investable universe if it has significant indirect exposure to an excluded activity. The company may pass the direct criteria of our analysis and still fail the indirect criteria. At times, indirect exposures may be referred to as 'Financing of [excluded activity]' or '[excluded activity] Products and Services' in screening documents and disclosures.

### **The nature of the investment exposure:**

Different types of assets and asset classes result in different kinds of exposure to excluded activities. This means our approach to assessing exposure to excluded activities varies between asset classes. For example:

- 1 **Equity (shares):** investing in the equity issued by a company means that the investor gains a small portion of exposure to all of the company's activities and attributes, because the investor effectively 'owns' a small part of that business. Therefore, screening activities focus on the activities and attributes of that company when determining whether or not it should be excluded from the investable universe.
- 2 **Fixed Interest (debt):** investing in a debt security means that the investor gains exposure to the activities, projects, or business attributes that this debt makes possible through the Use of Proceeds. For example, a bank may issue a green bond that strictly requires all proceeds to be used towards building renewable infrastructure. In this instance, the projects that this green bond makes possible may be the primary focus of screening activities, rather than the bank issuing the green bond.

### **Circumstances where investments may be inconsistent with our screens**

- We regularly review our portfolio to ensure compliance to our ethical screens. Where we identify that an asset we hold changes the nature of their business so that they no longer comply with our ethical screens, we will remove that asset from our portfolio. However, the process of selling an asset held directly or through an ETF may take some time. This means that we cannot guarantee that the Fund's underlying investments will be consistent with the investment strategy and screening processes at all times. Exposure to investments engaged in or connected with excluded activities, industries or companies may occur from time to time or in an insignificant way, notwithstanding reasonable endeavours to ensure the Fund's investments are compatible with the investment strategy and screens.
- Cash held with or through custodians or sub-custodians may be held with financial institutions which have not been ethically approved for investments.

## Attributes by asset class

The below table summarises the attributes and screening application in the Verve Super sub-plan broken down by asset class.

Attribute	Australian Listed Equities	International Listed Equities	Growth Alternatives	Defensive Alternatives	Direct Property	Australian Fixed Interest	International Fixed Interest	Cash
<b>Strategy</b>	We implement a primarily quantitative methodology to construct a portfolio of listed shares and ETFs having very limited to no exposure to smaller companies.		We actively manage a multi-year investment program to purchase a range of investments (equity and debt securities) that we believe can offer diversification compared to the Option's equity and fixed interest investments.			We actively manage a portfolio of securities to achieve an attractive yield and low risk of capital loss. We select bonds, funds and ETFs taking into account their maturity, creditworthiness and favour covenants that direct the use of proceeds.		We deposit and invest in money market accounts
<b>Negative screens</b>	Screen type A	Screen type B	Screen type C			Screen type D		No negative screens apply to cash
<b>Positive screens applied to part or all of the asset class</b>	Sustainability Leaders, Gender Equity	Carbon Leaders	N/A			Green Bonds		No positive screens apply to cash

**Appendix:**

**Negative screens:**

The below tables provide a description of the screens and thresholds applied<sup>1</sup>, including indications of how these vary between investment options and asset classes.

Negative Screen	Description of what this screen excludes	Screen type A (Aus Equities)		Screen type B (Intl Equities)		Screen type C (Growth Alternatives, Defensive Alternatives, Property)		Screen type D (Fixed Interest)	
		Does the screen apply	Revenue threshold	Does the screen apply	Revenue threshold	Does the screen apply	Revenue threshold	Does the screen apply	Revenue threshold
Fossil Fuels	Owning fossil fuel reserves, and the mining extraction or burning of fossil fuels. Fossil fuels are viewed as all kinds of coal, oil and gas.	Yes	0%	Yes	0%	Yes	0%	Yes	0% Use of Proceeds <sup>2</sup>
Gambling	Operation of casinos and gambling facilities or production of gambling	Yes	0%	Yes	0%	Yes	0%	Yes	0%

<sup>1</sup> **N/A revenue thresholds:** Where a revenue threshold is referred to as 'N/A' this indicates that the nature of the activity assessed is a business attribute rather than a revenue generating activity as described in the 'screening approach' section above.

<sup>2</sup> For Green bonds (i.e., green bonds who have met the Green Bond positive screening criteria) screens are effectively applied both at a Use of Proceeds (UoP) and Issuer level. There remains a 0% revenue threshold for UoP, and on top of that there are requirements that Issuers must have no more than 5% revenue exposure to fossil fuels. This creates space for transitioning companies that issue green bonds to cover activities only focused on renewable and sustainable activity and have no UoP exposure to fossil fuels.

Negative Screen	Description of what this screen excludes	Screen type A (Aus Equities)		Screen type B (Intl Equities)		Screen type C (Growth Alternatives, Defensive Alternatives, Property)		Screen type D (Fixed Interest)	
		Does the screen apply	Revenue threshold	Does the screen apply	Revenue threshold	Does the screen apply	Revenue threshold	Does the screen apply	Revenue threshold
	products, including pokies machines.								
Nuclear	Operation of nuclear energy plants.	Yes	0%	Yes	0%	Yes	0%	Yes	0% Use of Proceeds <sup>3</sup>
Tobacco	Production or manufacturing of tobacco products.	Yes	0%	Yes	0%	Yes	0%	Yes	0%
Weapons (a.k.a., armaments & militarism)	Manufacturing, production, engineering or sale of armaments and weaponry.	Yes	0%	Yes	0%	Yes	0%	Yes	0%

<sup>3</sup> As above, but accepting very minor exposure of maximum 5% revenue to nuclear power at the *issuer level*. This accounts for some renewable energy companies that may have limited exposure to nuclear power (more common in the EU) that are issuing green bonds dedicated to non-nuclear activities.

Negative Screen	Description of what this screen excludes	Screen type A (Aus Equities)		Screen type B (Intl Equities)		Screen type C (Growth Alternatives, Defensive Alternatives, Property)		Screen type D (Fixed Interest)	
		Does the screen apply	Revenue threshold	Does the screen apply	Revenue threshold	Does the screen apply	Revenue threshold	Does the screen apply	Revenue threshold
Indirect exposure to baseline screens	Assessed as the delivery of products and services that are specific (designed specifically for activities linked to baseline exclusions) and/or significant (i.e., without these services the activities would not be possible, such as major project financing).	Yes	5%	Yes	5%	Yes	5%	Yes	5%
Alcohol	Revenue exposure to production of alcohol (a.k.a. "production"). Also considers indirect exposure of sales and distribution (a.k.a., "sales").	Yes	Production 5% Sales 20%	Yes	Production 5% Sales 20%	Yes	Production 5% Sales 20%	Yes	Production 5% Sales 20%
Animal Cruelty	Live animal export, animal testing for cosmetic purposes, Owning or operating factory farms or abattoirs, and production of	Yes	0%	Yes	0%	Yes	0%	Yes	0%

Negative Screen	Description of what this screen excludes	Screen type A (Aus Equities)		Screen type B (Intl Equities)		Screen type C (Growth Alternatives, Defensive Alternatives, Property)		Screen type D (Fixed Interest)	
		Does the screen apply	Revenue threshold	Does the screen apply	Revenue threshold	Does the screen apply	Revenue threshold	Does the screen apply	Revenue threshold
	controversial animal products such as ivory, foie gras, furs and exotic leathers.								
Board gender diversity	Removing listed companies with Board of Directors where all board members are men.	Yes	N/A	Yes	N/A	Yes	N/A	Yes <sup>4</sup>	N/A
Chemicals of concern	Production or manufacturing of controversial agricultural chemicals, or contamination of environments with harmful chemicals such as arsenic.	Yes	0%	Yes	0%	Yes	0%	Yes	0%
Destruction of Valuable Environments	Activities which have a direct negative impact on recognised UNESCO World	Yes	N/A	Yes	N/A	Yes	N/A	Yes	N/A

<sup>4</sup> Note that where issuers are government bodies or do not have boards of directors this screen cannot be applied.



Negative Screen	Description of what this screen excludes	Screen type A (Aus Equities)		Screen type B (Intl Equities)		Screen type C (Growth Alternatives, Defensive Alternatives, Property)		Screen type D (Fixed Interest)	
		Does the screen apply	Revenue threshold	Does the screen apply	Revenue threshold	Does the screen apply	Revenue threshold	Does the screen apply	Revenue threshold
	Heritage or High Conservation Value areas.								
Human & labour rights	Evidence of direct, repeated and systemic labour rights violations, including child labour, forced labour, sweatshops, and significant harm to communities without adequate remediation or redress.	Yes	N/A	Yes	N/A	Yes	N/A	Yes	N/A
Junk foods	Production or sale of foods determined to have low nutritional value or possessing addictive properties such as through high sugar content or additives.	Yes	33%	Yes	33%	Yes	33%	Yes	33%
Detention of Asylum Seekers	Evidence of activities that directly enable the	Yes	0%	Yes	0%	No	N/A	No	N/A

Negative Screen	Description of what this screen excludes	Screen type A (Aus Equities)		Screen type B (Intl Equities)		Screen type C (Growth Alternatives, Defensive Alternatives, Property)		Screen type D (Fixed Interest)	
		Does the screen apply	Revenue threshold	Does the screen apply	Revenue threshold	Does the screen apply	Revenue threshold	Does the screen apply	Revenue threshold
<b>Supplementary screens</b>		Does the screen apply	Revenue threshold	Does the screen apply	Revenue threshold	Does the screen apply	Revenue threshold	Does the screen apply	Revenue threshold
& for-profit prisons	detention of Asylum Seekers, or the operation of for-profit prisons.								
Pornography	Production of materials determined to be pornographic in nature.	Yes	0%	Yes	0%	Yes	0%	Yes	0%
Payday or Predatory lending	Lending products and services with unfair or exploitative terms that target vulnerable communities, including 'payday loan' schemes.	Yes	0%	Yes	0%	No	N/A	No	N/A

**Positive screens:**

The below tables provide a description of the positive screens applied, including indications of how these vary between asset classes.

Positive Screen	Description of this positive screen	Positive screening outcome	Relevant asset class
<b>Carbon Leaders</b>	<p>Companies that have a 'carbon efficiency' that places them in the top one-third of companies in their industry or are otherwise superior performers in relation to avoided emissions.</p> <ul style="list-style-type: none"> <li>· Carbon efficiency: Carbon efficiency is determined by calculating the greenhouse gas emissions from a company's operations, fuel use and supply chain, divided by its annual revenue.</li> <li>· Avoided carbon emissions: Superior performers in relation to Scope 4 carbon emissions are those companies involved in commercialising technologies that have net positive climate benefits through substantial greenhouse gas emissions reductions or sequestration. Companies in this category typically include those with primary business activities in renewable energy, energy efficiency, sustainable agriculture and land use, and carbon sequestration.</li> </ul>	All securities must pass this positive screen to be eligible for investment.	International equity (all)
Employers of Choice for Gender Equality	Companies that are current holders (at time of analysis) of the Workplace Gender Equality Agency's (WGEA) Employer of Choice for Gender Equality citation.	Creates a portfolio bias toward identified securities.	Domestic equity (partial)
<b>Green Bonds</b>	Green bonds are issued to fund projects that have been identified as contributing positive environmental and/or climate benefits, such as those designed to prevent or reduce pollution, improve the sustainable use of natural resources, or help in the transition to non-fossil fuel based technologies. We look to the internationally-recognised Climate Bond Initiative (CBI) to identify green and sustainable bonds that are eligible for inclusion, based on their alignment to key standards.	All securities must pass this positive screen to be included in the dedicated portion of the portfolio.	Fixed interest (partial)

Positive Screen	Description of this positive screen	Positive screening outcome	Relevant asset class
<b>Sustainability Leaders</b>	<p>A company identified as having significant business activities or attributes within one of the below categories. These categories have been identified as bringing companies into alignment with the UN Sustainable Development Goals (SDGs), though there can be no guarantee that these activities contribute to the achievement of the SDGs.</p> <ul style="list-style-type: none"> <li>· Climate adaptation</li> <li>· Nutrition, agriculture and land use</li> <li>· Improved industrial processes, materials, and pollution reduction</li> <li>· Healthcare</li> <li>· Transportation solutions</li> <li>· Education</li> <li>· Water efficiency</li> <li>· Renewable energy and energy efficiency</li> <li>· Green buildings</li> <li>· Sustainable tourism</li> <li>· Sustainable and regional infrastructure</li> <li>· Social and community housing</li> <li>· Worker and consumer protection</li> <li>· Regional and community banking</li> <li>· Or possession of key certification such as B Corporations, Supply Nation, RAP Elevates, etc.</li> </ul>	<p>Creates a portfolio bias toward identified securities.</p> <p>Sustainability Leaders are first preference for inclusion, but other index methodology rules (including sector caps) apply.</p>	<p>Domestic equity (partial)</p>

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