

Challenger Limited

Responsible Investment Policy

This version:	Version 5
Jurisdiction:	All
Date of version:	August 2020
Review of policy due by:	August 2021
Policy owners:	Chief Executive, Life Chief Executive, Funds Management
Prepared by:	ESG Specialist
Authorised by:	Challenger Risk Committee

SUMMARY

Why is this Policy required?

To set out the principles and guidelines that Challenger will apply to ensure that:

- environmental, social and governance (**ESG**) risks and opportunities are adequately considered as part of Challenger's investment processes; and
- acceptable management procedures are in place so that ESG considerations undertaken in the investment process are in accordance with Challenger's obligations as a PRI signatory and other relevant industry standards.

Who does this Policy apply to?

All of Challenger's internally appointed investment managers. This policy also outlines the process that must be followed when Challenger appoints third party investment managers.

Governance

Challenger's Board of Directors bear the ultimate responsibility for the management and reporting of ESG matters throughout Challenger.

Independent Reviews

Challenger's Assurance function performs targeted reviews on behalf of Challenger Risk Committee (the **GRC**).

Development and Maintenance

The Policy Owner is responsible for the development and ongoing maintenance of this policy.

Policy Owners

Chief Executive, Life
Chief Executive, Funds Management

Implementation

Challenger's Board of Directors, the GRC, relevant Leadership Team members, and all Investment Management Heads and their teams (the **relevant Challenger employees**) are responsible for the effective management of the integration of ESG matters into the investment decision-making process and for ensuring that proper procedures are in place to effectively meet the obligations contained within this policy.

This integration of ESG considerations into the investment process entails the identification, assessment and evaluation of potential and actual ESG matters as part of the criteria for making an active investment decision.

Specific Obligations

Reporting Requirements

The integration of ESG considerations into the investment process must be tracked by the relevant Challenger employees with reporting conducted through the Challenger Governance, Risk and Compliance workflow system.

On an annual basis, the Chief Investment Officer, Life and the Chief Executive, Funds Management review and approve the annual PRI Assessment report and provide a copy to Challenger's Executive Risk Management Committee (the **ERMC**) for review.

Mandate clients are informed of any ESG considerations considered in the investment process through regular reports as specified in the contractual terms of the relevant Investment Management Agreement (**IMA**).

Challenger publishes a summary of the proxy voting records

Any incidents / breaches of the obligations contained within this policy are reported in accordance with Challenger's Incident Management Policy and Practice Note.

Training and Awareness

The Investment Management Heads and the relevant Leadership Team members are responsible for ensuring that the appropriate divisional procedures to effectively meet the obligations contained in this policy are documented and operational.

All relevant employees must receive training on policies, procedures and internal controls in order to understand their responsibilities for meeting the obligations contained within this policy.

Key Terms

ACSI	Australian Council of Superannuation Investors
Challenger	Challenger Limited and any wholly owned subsidiaries involved in investment management decisions.
Corporate governance	Is concerned with the way corporate entities are governed, as distinct from the way businesses within those companies are managed. Corporate governance addresses the issues facing boards of directors, such as the interaction with top management and relationships with the owners and others interested in the affairs of the company, including creditors, debt financiers, analysts, auditors and corporate regulators
Corporations Act	<i>Corporations Act 2001</i> (Cth)
Corporations Regulations	<i>Corporations Regulations 2001</i> (Cth)

ESG	Environmental, Social and Governance
ERMC	Challenger's Executive Risk Management Committee
FSC	Financial Services Council.
GRC	Challenger's Challenger Risk Committee
CRO	Challenger's Chief Risk Officer
IMA	Refers to an Investment Management Agreement which is a contract between an investor and an investment manager that states the terms and conditions applying to the management of the stated assets
Investment Management Head	The internal manager accountable for the investment management services provided by a Challenger entity or brand, or the person who is accountable for the investment management services that have been delegated to a third party investment manager
Investment Manager	A corporation appointed to invest on behalf of a Challenger entity
Leadership Team members	Challenger's Chief Executive Officer and direct reports to the Chief Executive Officer
Policy Owners	Chief Executive, Life Chief Executive, Funds Management
Portfolio(s)	Consists of the following: (i) funds or mandates for which a Challenger entity acts as responsible entity, trustee or is the appointed Investment Manager; and (ii) the statutory fund(s) of the life company
Proxy voting	The exercise by Challenger, or its authorised agent, of voting rights attaching to securities held in Portfolios on behalf of Challenger investors and/or clients
PRI	Network of signatories committed to six Principles for Responsible Investment

Review Cycle

This policy will be reviewed annually, or as required if there are material changes to the PRI requirements or business activities.

1. Responsible investment commitment and approach

Challenger Limited (**Challenger**) is a prominent investment manager in Australia and Japan. Challenger recognises the responsibilities it has as a company in relation to sustainability and the environment, people and the community in which it operates. Challenger also acknowledges the relevance of environmental, social and governance (**ESG**) factors and believes that there are links between long-term sustainable returns and the quality of an organisation's ESG practices.

Challenger is a signatory to the Principles for Responsible Investment (**PRI**) and, as such, it undertakes to consider ESG factors in its investment decision-making and ownership practices. Challenger has adopted an integrated investment management approach to deliver responsible investment outcomes. In line with these practices is Challenger's belief that the consideration of ESG factors will provide a greater understanding of areas of potential risk and opportunity that could ultimately affect the value, performance and reputation of the investment decision-making that it undertakes.

The following PRI principles (the **PRI Principles**) underpin this policy:

1. we will incorporate ESG issues into our investment analysis and decision-making processes;
2. we will be active owners and incorporate ESG issues into our ownership policies and practices;
3. we will seek appropriate disclosure on ESG issues from the entities in which we invest and from our third party investment managers;
4. we will promote the acceptance and implementation of the PRI Principles within the investment industry;
5. we will work together with other organisations to enhance our effectiveness in implementing the PRI Principles; and
6. we will report on our activities and progress towards implementing the PRI Principles.

Challenger recognises that ESG considerations cover a wide range of issues and that the practical means of applying the PRI Principles are developing across the industry.

This Policy outlines how Challenger integrates ESG considerations in its investment processes, and how the approach to ESG integration varies depending on the nature of the relevant asset class and investment strategy.

At Challenger, investment management teams consider ESG risks and opportunities that are relevant to the current or future value of an investment when deciding whether to buy, retain or sell an investment. These issues may be driven by existing or future market trends, reflect issues of considerable societal concern, or pose potential operational, financial, strategic, reputational or systemic risks. Importantly, ESG factors form a part of the overall value proposition for an investment. These considerations are made at the investment level and also form a part of portfolio construction decisions across the entire portfolio. There are however cases where this not applicable such as where Challenger employs a passive quantitative strategy.

Additional details on specific entity and asset class approaches to ESG integration can be found on the Challenger and CIP Asset Management websites. The following documents are currently available:

- CLC Responsible Investment Statement
- CIPAM Fixed Income Responsible Investment Statement
- CIPAM Real Estate Responsible Investment Statement

Challenger subscribes to an external ESG data provider to enable its investment teams to access additional ESG insights and reporting.

Challenger also seeks to engage with companies in which it invests, or is considering for investment, in relation to their ESG risk management policies, strategies, performance, disclosure and management capabilities. The level of engagement is dependent on the asset class and nature of the investment. The intent of the engagement is to reduce the risk of the underlying investment or sector, resulting in improved investment outcomes for clients.

Challenger's consideration of such practices does not include making ethical or moral judgments on practices or issues, nor does it seek to exclude particular companies, asset types or industry sectors from its investable universe wholly on such grounds. However, if these factors make the company, asset type or industry un-investable for specific mandates or funds, then they may be excluded. For

example, where the specific risk results in the required return for an investment being meaningfully higher than can be achieved, or if risks exceed those targeted by the fund or client.

Where possible, Challenger seeks to identify positive ESG trends and invests with the intent to reduce the cost of capital for companies or sectors which have a positive impact on the environment or society. Challenger believes its clients benefit from such investments through improved investment outcomes as a result of the reduced risks on these investments.

When selecting third party investment managers to manage funds on its behalf, Challenger assesses the firm’s overall ESG alignment and integration approach and ensures they have a formal ESG policy in place. Further information on this process is outlined in section 7.2.

As a property asset owner, Challenger (where appropriate) embarks on energy projects with an aim to improve the performance of the asset and its energy star rating. This includes considering the rating of a building based on measurement of its operational impacts in categories such as energy, water, waste, natural hazards, flooding, contamination and indoor environment. Challenger’s Real Estate team have a core focus on the investment selection process and on establishing property management strategies over the life cycle of an asset which leads to long-term value for investors, the environment and communities. The team’s approach to responsible investment can be found on the CIPAM website (<https://www.challengerinvestmentpartners.com/real-estate/responsible-investment/>).

CIPAM, both Fixed Income and Real Estate, and Challenger Investment Solutions adheres to FSC Standard 23 – Principles of Internal Governance and Asset Stewardship. You can read more about CIPAM’s approach to asset stewardship and internal governance with respect to investment management activities, on the CIPAM website (<https://www.challengerinvestmentpartners.com/about/who-we-are/>).

Whilst Challenger aims to consider ESG considerations when making investment decisions, it has no predetermined view as to what constitutes such considerations, or the extent to which they will be taken into account in investment decision-making and ownership practices. Examples of some of the ESG risks and opportunities that may be considered across different asset classes are set out in the table below:

Table – Examples of ESG risks and opportunities

Considerations	Examples
Environmental	Climate change (e.g. greenhouse gas emissions, emissions trading, physical risks and opportunities, transition risks), building energy performance, energy consumption, pollution, natural resource use and degradation (e.g. water scarcity), waste, clean technology products and services and environmental management practices.
Social	Human capital, workplace health and safety, labour relations and standards, human rights, modern slavery, demographic changes, supply-chain, responsible lending and community impacts.
Governance	Board composition and independence, executive remuneration and incentive plans, corporate accountability structures, compliance, negligence, bribery and corruption, conflicts of interest and related-party transactions, shareholder rights, accounting and audit quality.

2. Purpose of Policy

The purpose of this policy is to set out a high level overview of Challenger’s approach and expectations in relation to ESG factors that Challenger may take into consideration in investment decision-making and ownership practices. The principal objectives of this policy are to:

- ensure that ESG risks and opportunities are adequately considered as part of Challenger’s investment processes in line with clients’ interests and relevant industry standards such as the PRI; and
- to assist and guide Challenger in engaging with companies and Challenger-appointed third party investment managers to promote better governance practices.

This policy should be read in conjunction with Challenger's Risk Management Strategy. This policy is consistent with the long-term investment objectives of Challenger and its risk tolerance.

3. Responsibility

This policy has been put in place by Challenger's GRC and is reviewed annually, or as required if there are material changes in the regulatory framework or business activities.

4. Scope

This policy applies to all relevant employees of Challenger who are responsible for making active investment decisions. This includes:

- Challenger's Board of Directors;
- respective Boards of Directors of relevant Challenger subsidiary companies;
- Challenger's Investment Management Heads and their teams;
- the relevant Leadership Team members;
- investment analysts who research and rate the quality and value of assets;
- Investment Management Heads / Portfolio Managers who make the decision to buy, retain or sell a particular asset to achieve the objectives of an investment portfolio; and
- Investment Management Heads who make decisions to allocate funds to third party investment managers.

This policy also outlines the process to be followed when appointing new third-party investment managers. It is also intended to act as a guide to assist existing Challenger-appointed third party investment managers to meet their responsibilities under applicable laws, regulations and industry standards relevant to ESG factors.

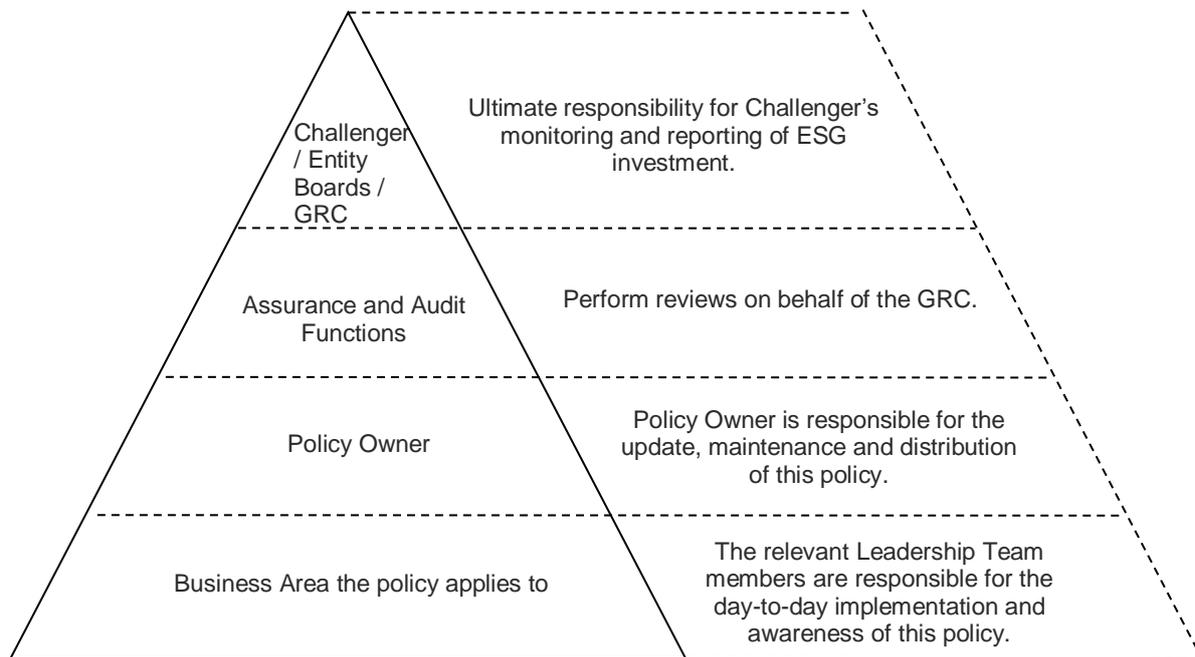
5. References

In developing this policy, Challenger has considered the obligations laid out in the below policies, practice notes, statements, standards, regulations and other documents:

- Challenger's Investment Management Governance (Proxy Voting) Policy;
- Challenger's Incident Management Policy & Practice Note;
- Challenger's Risk Management Strategy;
- Principles for Responsible Investment;
- FSC Standard No. 13: Proxy Voting;
- FSC and ACSI ESG Reporting Guide for Australian Companies 2015;
- ACSI Governance Guidelines dated October 2015; and
- Regulation 7.9.14C of the Corporations Regulations.

Challenger entities and divisions that have operations in jurisdictions other than Australia must always consider local rules and regulations as they may be stricter than the practices set out in this policy. Where local rules are more stringent than those outlined in this policy, the local regulations will always prevail. If there is a direct conflict between the local laws of another jurisdiction and the requirements under this policy, the relevant management of the Challenger or division must notify the Policy Owner prior to the implementation of any local policies or procedures.

6. Overall Responsibilities



7. Additional Obligations and Accountabilities

7.1 Portfolios where Challenger performs the investment management function

This sub-section 7.1 only applies to Portfolios where Challenger performs the investment management function. This sub-section does not apply to Portfolios where Challenger has delegated the investment management function to a third party investment manager.

7.1.1 Communication with companies and proxy voting procedures

Proxy voting is a means by which Challenger is able to demonstrate its interest in the governance practices of companies. By exercising its right to vote, Challenger can have an influence on the corporate governance of the companies in which it invests. Challenger follows the PRI Principles on corporate governance and proxy voting.

Challenger aims to meet the investment objectives of clients in relation to ESG matters by discouraging disadvantageous corporate policies through active discussions with management or the board of directors, and by exercising proxy votes. Challenger also recognises that there are opportunities to encourage effective management through the endorsement given by positive votes.

Challenger seeks to vote on all company resolutions, regardless of materiality, provided that it has the authority to do so and the necessary documentation is received in time to lodge a vote by the due date. Challenger recognises that voting rights are a valuable asset which should be managed with the same care and diligence as any other portfolio asset. In addition, Challenger may, in determining its proxy voting, rely on a third party advisory firm that provides advice on proxy voting and corporate governance issues.

7.2 Selection and appointment of third party investment managers

When carrying out due diligence for the appointment of new third party investment managers, Challenger will:

- promote Challenger's expectations in respect of ESG considerations as a formal part of Challenger's investment manager selection and review process;

- seek to understand the third party investment manager's responsible investment approach, resource capability and intent with respect to ESG;
- review the third party investment manager's ESG Policy and, where relevant, encourage and assist them in formalising such a policy
- encourage the third party investment manager to discuss ESG considerations undertaken in their own investment decision-making and ownership practices in their reports to Challenger; and
- encourage the third party investment manager to become a signatory to the PRI Principles.

Challenger also expects that the third party investment managers it appoints will:

- demonstrate an acceptable level of commitment to the management of key ESG risks and opportunities as set out in the PRI Principles; and
- apply principles of active ownership and investment stewardship, particularly in relation to proxy voting and engagement, in a manner similar to that set out in Challenger's Responsible Investment Policy.

7.2.1 Proxy voting reporting arrangements with third party investment managers

Investment Management Heads and their teams are responsible for ensuring that all new IMAs with third party investment managers include ESG considerations. When IMAs are entered into, the relevant Investment Management Heads and their teams should ensure:

- there is a specific clause contained within the IMA which clearly sets out the third party investment manager's approach to ESG considerations, including an adequate explanation as to how ESG risks are accounted for; and
- the proxy voting reporting arrangements that have been agreed between Challenger and the third party investment manager are clearly articulated and are sufficient for Challenger to meet its obligations under sub-section 7.3 of this policy.

7.3 Reporting Requirements

7.3.1 Reporting responsible investment strategies to clients

Challenger commits to regularly communicating its responsible investment approach. These communications will include the following:

- commentary in Challenger's Annual Sustainability Report which provides a summary of the ESG considerations considered as part of Challenger's investment decision-making and ownership practices over the course of the previous financial year;
- making information available on the Challenger website; and
- an annual modern slavery statement available on a public Modern Slavery Statements Register.

On an annual basis and in line with the PRI requirements, the Chief Executive Life and the Chief Executive Funds Management review and approve the annual PRI Assessment Report submission and provide a copy to the ERM for review.

Challenger also publishes an annual summary report of its proxy records. In addition, mandate clients are informed of proxy voting through regular reports (if applicable) in compliance with the contractual terms of the relevant IMA.

Challenger provides a copy of this policy to an investor upon request.

7.3.2 Application of this policy to different investment structures

Challenger's investment arrangements are a combination of separate mandates with investment managers, investments in pooled vehicles, and direct investments. Appropriate approaches to ESG integration are expected across these different investment arrangements, including quantitative and passively managed approaches.

From the date of this policy, all new IMAs entered into by Challenger for mandates will make reference to this policy. All existing IMAs will make reference to this policy as they are reviewed and progressively updated.

Where Challenger invests in pooled funds, adopting principles of responsible investment will ultimately depend upon the relevant investment managers incorporating ESG considerations into their own investment processes rather than relying on this policy.

7.3.3 Domestic and international markets

In relation to Challenger entities based in both local and international markets, Challenger informs all of its investment managers, as well as any other relevant service providers, that it will:

- regularly monitor the progress of its internal and third party investment managers and their ESG integration processes;
- promote Challenger's expectations in respect of ESG as a formal part of Challenger's investment manager selection and review process; and
- report on the progress of the implementation of this policy to Challenger's Board and shareholders via regular reports.

7.3.4 Monitoring, review and reporting of Challenger's ESG integration

Challenger's Investment Management Heads periodically monitor the integration of ESG considerations and their management strategies in Challenger's investment decision-making and ownership practices. In order to facilitate this, all identified investment in ESG matters are required to be tracked by the relevant Business area as part of the documentation for each investment decision.

7.4 Modern Slavery

Challenger understands that modern slavery is a serious social issue that corporate Australia must work to address. Challenger recognises that there are still instances of modern slavery, particularly in high risk jurisdictions and high risk industries such as textiles, financial services (through their supply chains), mining, construction, property, food and beverages, agriculture, and healthcare.

Challenger is required to comply with the Australian Modern Slavery Act 2018. Under this Act, Challenger has an obligation to report annually on the risks of modern slavery in its operations and supply chains, including investment activities.

When assessing potential or existing investment opportunities, Challenger's investment managers will undertake due diligence to assess any potential modern slavery risks in accordance with the specific entity and asset class approach to ESG integration. Challenger is committed to ensuring that its investment managers are aware of the risks of modern slavery within their investment portfolios and supply chain, ensuring adequate policies are in place to mitigate and manage modern slavery risks caused by, contributed or directly linked to an investment activity.

8. Training and Awareness

The Investment Management Heads and the relevant Leadership Team members are responsible for ensuring that the appropriate divisional procedures to effectively meet the obligations contained in this policy are documented and operational.

All relevant employees must receive training on policies, procedures and internal controls in order to understand their responsibilities for meeting the obligations contained within this policy.

9. Risk Appetite and complying with this Policy

Challenger's vision is to provide our customers with financial security for retirement. Challenger promotes a positive culture of risk awareness and transparency, including open communication and challenge of current and emerging risks, speaking up about matters of concern, and proactively managing issues and incidents. Challenger has no appetite for conducting business activities unfairly or in contravention of the law, or which knowingly damage or are inconsistent with its brand and reputation. Challenger has no appetite for employees intentionally not following policies and procedures.

Employees are to comply with Challenger policies and are responsible for familiarising themselves with the policies relevant to their role. Policies are available on the [Group policies page](#) on Connect.

Incidents of non-compliance with this policy are to be reported in line with the Challenger Incident Management Policy.

Employees at Challenger are held accountable for their actions. Consequences for non-compliance with this Policy may include but are not limited to:

- a requirement to undertake additional training
- increased supervisions
- a verbal warning
- a written warning (including a first and final written warning)
- an impact to performance rating or promotion
- a financial consequence
- dismissal.

10. Whistleblower provisions

Challenger has a Whistleblower Policy and encourages disclosures from employees, former employees and suppliers regarding any unethical, illegal, corrupt or other inappropriate conduct including in relation to this policy. The Whistleblower Policy is available on Connect and the Challenger website.

11. Points of Contact

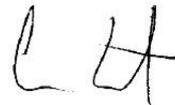
Challenger's Investment Management Heads and the relevant Leadership Team members are the key points of contact for matters arising from this policy.

12. Review Cycle

This policy will be reviewed annually, or as required if there are material changes in the regulatory framework or business activities.

This is to certify that we, Challenger Limited's Executive Managers and Investment Management Heads, have read and understood the Responsible Investment Policy. We endorse this policy and will support its progressive implementation within our respective teams in a manner that is appropriate to the different types of assets that we manage and the investment styles we use.

Chris Plater
Chief Executive, Life



Nick Hamilton
Chief Executive, Funds Management



Victor Rodriguez
Head of Fixed Income, CIP Asset Management



Chris Forbes
Head of Real Estate, CIP Asset Management



Josh Heller
Head of Solutions, CIP Asset Management



Peter Schliebs
Head of Life Risk and Senior Portfolio Manager,
Real Assets, Challenger Life Company



Stephen Kidd
Head of Equity and Alternatives, Challenger Life Company



Chris Fleming
Head of ALM and Liquids



Keith Rodwell
Head of Specialised Finance, Life



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