CWC committee on workers' capital

trustee profile
February 2018

An Interview with Roslyn McLennan

Roslyn McLennan was appointed to the Sunsuper board in 2015 as a member representative on behalf of the Queensland Council of Unions. She is also a member of the fund's Investment Committee, Remuneration, Nomination and Governance Committee, Successor Funds Transfer Committee and Claims Committee.

About Sunsuper

Sunsuper is one of Australia's biggest industry pension funds with more than one million members and - as of January 2018 – AUD 50 billion (approximately USD 39 billion) in assets under management. Sunsuper – and other Australian industry super funds - are 'profit for member' entities which serve members in maximising their retirement savings. Employers may choose Sunsuper as a default fund for contributions they make to employee retirement savings. Individuals, regardless of employment situation or affiliation, may also choose Sunsuper as their fund.

The Sunsuper board is made up of equal numbers of member and employer representatives as well as three independent directors.

Board decisions are implemented by a staff team of more than 750. As of January 2018, 30 percent of Sunsuper's investment funds were 'unlisted assets' managed internally; the remainder of assets are managed by external asset managers. The fund invests in public and private equity, real estate, infrastructure, fixed income and hedge funds.

The purpose of Sunsuper is to "inspire and empower Australians to fulfil their retirement dreams."

1. Why were you interested in becoming a pension trustee?

I've been a union official for 25 years and have devoted my entire working life to helping members build power in their workplaces and industries. I'm dedicated to building outcomes in terms of wage increases and conditions, measures to support work/life balance and collective agreements for increases in superannuation.

The Queensland Council of Unions (QCU) appoints the two most senior full time officers to the role of board members on Sunsuper. When I was elected as General Secretary of the QCU, working on the board of an industry superannuation fund seemed like a natural extension of representing members in their search for dignity after work.

I'm also a strong feminist and we have an extraordinary gap in retirement savings between men and women in Australia. We must work to ensure greater equity between women and men when it comes to living out their retirement years with dignity and justice.

The CWC Trustee Profile Series features interviews with union-nominated pension fund trustees and touches on the role of individual board members in driving innovation around responsible investment at their funds.

Roslyn's trustee tips

1. It's not as easy as simply being right
2. Research points of leverage before you start the conversation
3. Be specific about your ask
4. Be precise and knowledgeable about the terms that force action. For instance, one consideration might be that many financial specialists place greater import on 'investment risk' rather than 'reputational risk'
5. Tap into financial service expertise to help make progress when needed
6. Put things in writing
7. Give other supportive directors and senior executives advance notice that you're planning to raise an argument, so as to avoid receiving a surprised silence in response
8. Target and tailor the arguments for those you are trying to convince
9. Ask ESG questions in a way that elicits the right responses from investment managers, others in the industry and stakeholders.
10. Predict objections you may hear and consider in advance how to handle them.

2. How are the values of the beneficiaries you represent reflected in the fund's board policies? And how has this changed over time?

Our members' values align very closely with Sunsuper's values. Whether members work in teaching or manufacturing, there's solidarity around the idea that they don't want their retirement savings to contribute to climate change or child and slave labour. These values make their way into board policies like the "Social License to Invest," which applies across the portfolio.

When I joined the board, I expressed my surprise that the only things that were excluded from the investment universe were munitions and tobacco. I suggested that if we were to walk in the street and speak to a Sunsuper member, we would find that it was not acceptable to be investing in companies that resort to child and slave labour for example.

Since then, we've made changes in the "Social License to Invest" to incorporate climate change, child labour and slave labour. I think we are doing the absolute right thing by our members by putting their money in encouraging good practices and withdrawing from companies that would make the lives of workers worse off. The social license to invest spectrum is important as it identifies the issues of most importance to the trustees and allocates 'issues' to 'actions' (for example, exclusion, activism, engagement etc.).

3. How do you strike a balance between the organisation's/employees' common values, your own values and the need to generate financial yields in your decision making as a trustee?

There are always debates within industry super funds with respect to how investment strategies align with the primary goal of providing benefits for each fund members' retirement. This is often used as an argument against ESG. But most industry super funds have an investment belief that ESG enhances long-term returns.

I think ESG is about reassuring members of the long-term strength of the fund; it can also be used to attract new members. I agree with Fiona Reynolds, UNPRI managing director, who said last year that as part of prudent capital management, trustees should be asking fund executives what they're doing to screen ESG risks and monitor these risks with external asset managers.

So really, industry super funds should use their financial strength not just to be followers, but to influence real change in government policies on ESG issues – because we know that managing these risks improves returns for investors and has a positive long-term impact on markets as well.

When union officials raise ESG concerns in industry super funds, there may be tension around whether you are acting as a 'director' or whether one has a 'union hat' on. In Australia, there is a "sole purpose" test[1], which calls for trustees to ensure that the fund is maintained solely for the provision of benefits for each member of the fund for their retirement.

However, I make the point that the application of ESG considerations DOES actually enhance long-term returns. For instance, companies that rely on systemic wage theft to prop up their business are a risk because there is an unknown liability that hasn't been paid back. One such company that I've raised concerns about has seen its share price fall significantly over the last 12 months.

1 The Industry Superannuation supervision Act, 1993 – "sole purpose test"

4. What are the key elements that empower you to consider ESG/responsible investment in the development of board policies?

The first is just having a very strong moral compass that keeps me connected to the values of the union movement and Australian workers. Thousands of conversations I've had with workers give me the direction I need in my moral compass to pursue these issues.

The confidence in discussing ideas for how to practically improve and implement change has been very helpful. The ACTU – our national peak union body - has a great trustee network that informs, advises and supports union trustee directors in taking this positive agenda forward. The Queensland union movement has mirrored that structure and we've had quarterly union trustee meetings in Brisbane. This has allowed us to make sure that a significant proportion of union trustees are empowered and given the skills and knowledge to place these issues on the agenda of their boards where relevant and where it will make a difference to their members.

Many of my colleague directors share the same passion and values as I do, so that's helpful.

I also like doing my homework and researching issues before I raise something formally. On ESG issues, I sometimes speak with unions representing workers in particular industries to give me a clear line of sight of where the pressure points and investment risks are.

5. What are the key elements that limit your ability to consider ESG/responsible investment in the development of board policies

As we say in the union movement, your strength is your weakness and your weakness is your strength. We do have diversity on our board and senior management team, which is useful for considering issues from different perspectives and arriving at the best possible decision.

On the flip side, it can also mean that when you raise something from a worker perspective, like an ESG issue, it is not always universally embraced immediately. I wouldn't say this limits our ability but we need to be cognisant of this before initiating discussion and presenting arguments.

6. As a trade union nominated trustee, what consideration do you give to trade unions calls for action around ESG issues?

I take it very seriously. As head of the Queensland union movement, we have 27 different unions affiliated to our organisation. I take each of their campaigns and fights very seriously every day.

If you have a situation where employees stand to lose $100bn in retirement savings because of wage theft, wage freeze, reduced penalty rates or cancelled collective agreements, then you've got a big superannuation problem.

We need to reconsider investments in companies that slash worker wages because ultimately we're looking at a reduction of the pool of retirement savings and weaker retirement outcomes for Australians.

If we can leverage members' retirement savings to encourage companies doing the wrong thing to make a different decision that will benefit the lives of working people collectively, through their own money, then I'm all for it. If we aren't doing anything about it, we aren't acting in members' best interests – and that is our core responsibility as union trustees.

7. What is your most memorable instance discussing and debating an ESG issue at your board?

We had an ACTU executive meeting where the National Secretary of the Transport Workers Union (TWU), Tony Sheldon, spoke passionately about one such fight. This company was a subsidiary of an Australian private equity firm. Essentially the TWU described the issues at the company as low-pay, split shifts, understaffing and a culture of fear. There were also serious issues raised about injury rates, coupled with the deliberate manipulation and underreporting of injury data. The company used this low-cost model to win contracts over competitors. For our fund, the issues were around the risk exposure to liability by way of underpayment toward compliance for health and safety as well as further negative media attention.

Back in March 2017, my colleague director and I raised the idea of expanding Sunsuper's ESG policy to protect against investment risk and reputational risk to our fund when we invest in Australian companies that exploit Australian workers though wage theft or other unconscionable work practices. The concerns were raised at both the Investment Committee and the Board. This resulted in agreement that Sunsuper would further investigate whether we had investments in the company; nor commit member funds to future capital raising ventures. The other result of our efforts was that Sunsuper would write to its investment managers and the Australian Council of Superannuation Investors to enquire how they use ESG principles to evaluate companies of concern.

In terms of future activities, we decided to review our Social License to Invest Spectrum to best question how ESG principles are used to evaluate investments in particular companies and to protect against investments risks to our fund where we discover investments in companies that exploit Australian workers through wage theft or other unconscionable practices. Considerations as to the nature of any further reforms to our ESG policy will be considered in the coming months.

The question we still need to consider though is the nature of the ask on industry super funds - whether we withdraw from investments or engage with the company to positively impact on any anti-worker behaviours. It's probably going to be a case by case decision because we often have the capacity to influence companies.

8. What were some of the challenges you encountered when trying to make progress on the issue?

Inevitably, ESG considerations give rise to questions as to whether our decisions go to our primary purpose (the sole purpose test). This is a question we all have to satisfy ourselves of when dealing with these issues. I believe that, in doing so, we were fulfilling our obligations as directors on a superannuation board by raising investment risks that impact members' long-term retirement returns.

"Ultimately, the minute I fail to defend workers, I might as well not be there. Other directors may know more about investment but nobody knows more about members' values and the importance of having dignity in retirement than a members' representative."

The other challenge was around the 'legality' of the practice regarding the treatment of workers at the company. Some can argue that if a practice is legal, we should not be concerned. But tobacco is also legal and was excluded from the portfolio before I joined the board in 2015. It wasn't that the challenges couldn't be overcome, it was a matter of thinking it through and preparing myself before bringing the issues to the board.

Ultimately, the minute I fail to defend workers, I might as well not be there. Other directors may know more about investment but nobody knows more about members' values and the importance of having dignity in retirement than a members' representative.

9. How did you resolve the issue?

I have found that committing concerns to writing assists in the resolution. Being clear about the nature of the risk, and the ask, also helps.

10. What are some of the emerging ESG issues facing pension trustees?

Environmental issues are more straightforward and elevated, because climate risk has become widely acknowledged among trustees. There has been a global investor response since the Paris 2015 climate change summit and we, at Sunsuper, have incorporated climate risk into our ESG investment policy.

The "S" part though is a bit of sleeper and is more controversial. It is in many ways more subjective. Until recently, we hadn't grappled properly even with child and slave labour, let alone unconscionable work practices like wage theft and split shifts, which are legal because of our archaic Australian industrial laws that need to be changed to give more power to working people. That is what the next five years in ESG activism should focus on.

Suite 510 – 1155 Robson Street Street, Vancouver, BC V6E 1B5 Canada **T:** +1 604.695.2023 **E:** info@workerscapital.org