



Sustainable investing

Local Government Super (LGS), like other super funds, invests in a range of assets including shares, private equity, direct property, etc but unlike most funds LGS actively invests these assets based on a sustainable and socially responsible investment policy. This policy specifically takes into consideration environmental, social and corporate governance (ESG) issues¹.

Why has LGS developed a sustainable and socially responsible investment policy?

The policy was developed because LGS recognises that the long term prosperity of the economy and the well being of members depends on a healthy environment, social cohesion and good governance of the companies in which it invests. The Trustee believes that it is not only important to maximise investment returns, but also to invest in a way that favours companies and projects which show a commitment to our community and the environment.

Furthermore by investing in 'green' buildings, renewable energy and alternative investments based on clean technology, LGS will help offset the risk of punitive emissions legislation, and position itself strongly to take advantage of the potential upstream growth as these sectors develop and expand.

How does the policy work?

The policy sets out the sustainability framework for all investments made by LGS. It covers the total investment portfolio, with specific policies for private equity and direct property investments as follows:

- The regulatory framework of LGS
- Selection of external asset consultants
- Selection and monitoring of investment managers, private equity and targeted investments
- Collaboration and engagement with other sustainable investing organisations
- Negative screening and replacement of investments
- Green management of direct property
- Commitment to the issue of climate change
- Proxy voting to influence company's environmental decisions
- Reporting of sustainability strategy to members and
- Corporate citizenship.

We further expand on several of the above initiatives to confirm to you the way in which the assets of LGS are invested in compliance with this policy.

Manager selection and monitoring

When selecting new investment managers, our due diligence includes a demonstration of how an assessment of ESG risks is incorporated into their investment process. The investment manager is asked to specify the resources available to analyse ESG risks, including personnel and their expertise, and their use of any external research services.

¹.Note that third party investment managers for the underlying portfolios in the Local Investment Fund may have various policies which also take these ESG factors into account when they make investment decisions. However, these policies do not have any direct bearing on the Trustee's investment decisions.



Managers are encouraged to discuss ESG and other risks in their investment reports to LGS. The LGS investment team monitors the investment portfolios of its investment managers to ensure that LGS' investment and ESG guidelines are adhered to. The LGS investment team holds discussions with investment managers who do not adhere to LGS policy to reiterate the importance of these policies. If there are continual breaches of the investment policies, LGS may withdraw the investment mandate.

Environmental issues

LGS considers climate change to be one of the most serious environmental risks facing the long-term prosperity of the fund and its members. LGS is a signatory to the Carbon Disclosure Project which collects and distributes information that helps prevent dangerous climate change.

LGS participated in the Climate Change Investment Initiative and commits to ongoing support for this project. It assists superannuation funds to understand their climate change risks and manage them effectively. LGS has also joined the Investor Group on Climate Change, which has the objective of raising awareness of climate change risks and encouraging best practices in the management of these risks.

When assessing existing and future investments, LGS assesses the environmental impact the operations of the investment have on the environment and the active steps the organisation has taken to commit to environmentally sustainable operations.

The Trustee of LGS is also an active shareholder and attempts to influence proper social and environmental activities when it casts its votes at company or shareholder meetings.

Direct Property holdings

The Trustee has adopted an environmental policy which, in part, is designed to increase energy and water efficiencies across the properties directly owned by LGS. The policy also encompasses waste reduction and recycling, indoor air quality, improving operations and maintenance, material and resources, Occupational Health and Safety and environmental risk management.

It is also now the current policy of the Trustee to source 100% of its energy requirements through green energy and requires tenants to follow suit as a condition of their lease renewal.

The Trustee will continually monitor performance in this area and is working towards an objective of 100% green energy for its commercial and industrial direct property investments within 10 years.

Alternative investments

An alternative investment is generally one that is not one of the four traditional asset types (ie stocks, property, bonds and cash). As part of its sustainable and socially responsible policy, LGS invests with certain private equity managers such as Hawkesbridge and Macquarie Clean Technology, which make direct investments into clean technology companies such as the Environmental Technology Group and SolarReserve. LGS has a strong commitment to these clean technologies and will continue to explore opportunities in this sector.

Principles of Responsible Investment

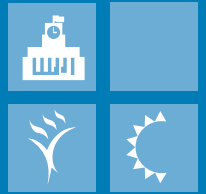
LGS is a signatory to the United Nations Principles of Responsible Investment (UN PRI) and as such undertakes to:

1. Incorporate ESG issues into investment analysis and decision making processes
2. Be active owners, vote on shareholder issues and participate in collective engagement
3. Seek disclosure on ESG issues by our investment managers
4. Promote the acceptance and implementation of the UN PRI Principles in the investment industry
5. Collaborate with other organisations to enhance effectiveness and
6. Report on our sustainability activities.

Collaboration and engagement

LGS is a foundation member of the Australian Council of Superannuation Investors (ACSI) and utilises ACSI to assist in ensuring that there is adequate scrutiny in the governance policies of listed companies. LGS is also a part owner and subscriber to Regnan – Governance Research & Engagement Pty Limited, a company dedicated to research and engagement services that promote improved ESG performance from Australian companies.

Through these organisations, LGS is able to engage with companies using a collective voice.



Socially responsible overlay

LGS uses an overlay based on research to exclude companies that operate in the below industries and companies which have been assessed to have a high ESG risk. It then replaces those stocks with companies that have high ESG ratings. This practice helps ensure that your superannuation money is invested in industries which are sustainable in the long term.

Where it is impractical for an investment to participate in the separate portfolio, LGS will consider the divestment of that investment on a case by case basis.

The Trustee has determined that LGS will not make investments in companies that are engaged in the following areas of activity:

1. Armaments
2. Gambling
3. Nuclear / Uranium
4. Old Growth Logging
5. Tobacco
6. Poor Mining Practices
7. Questionable Workplace Practices and
8. Questionable Environmental, Social or Corporate Governance Practices.

Where can I get further information?

If you would like a copy of the LGS 'Sustainable and Socially Responsible Investment Policy' then please contact Member Services on 1300 369 901.

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