Sustainable and Responsible Investment Policy

Local Government Super

October 2019
Version 6

Contents

1. Policy statement

a) Local Government Super (LGS) was established in 1997 as the fund for NSW local government employees. It is an open fund and provides responsible and sustainable investments for its members. LGSS Pty Limited, the Trustee of the Fund is solely responsible for the management and control of the Fund, ensuring LGS operates in accordance with the LGS Trust Deed and superannuation law.

b) This Sustainable and Responsible Investment Policy ('Policy') recognises that LGS is long term in nature and that the long term prosperity of the economy and the wellbeing of members depends on a healthy environment, social cohesion and good governance of LGS and the companies in which it invests. As a highly diversified investor, LGS has an interest in a large number of all major companies in Australia and internationally.

c) This Policy sets down the responsible investment principles by which LGS will be managed, and the requirements for all investments made by LGS. It covers the total investment portfolio, with specific policies for public and private equity investments and direct property. The Policy includes the list of collective engagement initiatives that LGS will participate in and the ESG risk assessment required of LGS' asset consultants and investment managers.

2. Definitions

ACSI	means the Australian Council of Superannuation Investors.
Board	means the board of Directors of the Trustee.
Committee	means the LGS Investment Committee.
ESG	means 'environmental, social and governance'.
Fund	means the superannuation fund known as Local Government Super (ABN 28 901 371 321) governed by the Trust Deed
Guidelines	means the LGS Sustainable and Responsible Investment Guidelines as amended from time to time.
IGCC	means the Investor Group on Climate Change.
LGS	means the Fund.
LGSS Pty Limited	means LGSS Pty Limited ACN 078 003 497.
RIAA	means the Responsible Investment Association of Australasia.
Policy	means this Sustainable and Responsible Investment Policy.
SRI	means 'sustainable and responsible investment.
Trust Deed	means the trust deed that established the Fund dated 30 June 1997, as amended from time to time.
Trustee	means LGSS Pty Limited, as trustee of the Fund.

3. Governance

a) This Policy provides a description of how the Trustee incorporates sustainability considerations and ESG risks as part of its fiduciary investment management obligations. It should be read in conjunction with the Guidelines, LGS Investment Policy Statement, Investment Governance Framework, Risk Management Framework and Due Diligence Policy.

b) The Policy is consistent with the long term investment objectives of LGS and its risk tolerance. LGS' Investment Beliefs recognise ESG factors and sustainability as important considerations in driving both long term investments returns and reducing risk. These factors are likely to become more important in all investment decisions.

c) The following sections in this Policy outline how LGS implements responsible investment throughout its investment processes. It uses a combination of internal management, including specialist responsible investment and sustainability personnel, along with the provision of outsourced responsible investment-related services. The Board, via its nominated subcommittees, has ultimate oversight of responsible investment activities.

4. ESG considerations

a) ESG issues can have a significant impact on portfolio values and member returns. They can impact individual companies or economies more broadly and can be short or long term in nature. The Trustee believes ESG risks are important to manage given the long term focus of LGS. ESG factors represent both risks and opportunities for investment.

b) Common ESG issues the Trustee considers during the investment process can include, but are not limited to:

Environmental	Social	Governance
Climate change	Human rights	Executive remuneration
Pollution and waste	Labour rights	Board independence and diversity
Biodiversity	Health and safety	Taxation practices
Resource scarcity and efficiency	Population growth and ageing demographics	Cyber risk
Food security and sustainable agriculture	Supply chain and stakeholder management	Corruption, bribery and business ethics

5. Climate change

Climate change is considered by the Trustee as the most significant ESG risk facing our members' long term savings. The Intergovernmental Panel on Climate Change has concluded that the global temperature is rising due to the increase in greenhouse gases in the atmosphere. The Trustee considers climate change to be the greatest environmental risk that the LGS investment portfolio faces. LGS is committed to:

a) manage the risks and take advantage of the opportunities associated with climate change
b) monitor the carbon performance of the portfolio and strive for improvements
c) ensure that climate change risks are considered by LGS advisors and investment managers
d) ensure that climate change risks are analysed as part of the due diligence procedures for new investments
e) participate in climate change related collaborative initiatives, and

f) publicly disclose climate change performance of our investments to members in line with the Task Force for Climate-related Financial Disclosures.

6. External asset consultants

a) The Trustee receives investment advice from external asset consultants. Asset consultants to LGS must demonstrate they have the ability and resources to factor in ESG risks when advising on asset sectors, manager selection and portfolio construction.

b) Asset consulting agreements should specify their expertise in this area and explain how the risks are being accounted for. Asset consultants to LGS will also be expected to contribute to the monitoring of ESG risks.

7. Manager selection and monitoring

a) When searching for new investment managers across all asset classes, due diligence should include a demonstration of how an assessment of ESG risks is incorporated into the investment process. The manager should specify the resources available to analyse ESG risks, including personnel and their expertise, and external research services used.

b) Managers are encouraged to discuss ESG and other risks in their investment reports to LGS. The LGS Investment Team will be charged with monitoring the investment portfolios of its investment managers.

8. Collaboration & engagement

a) LGS is involved with several industry groups aiming to improve responsible investment practices and provide a policy and advocacy platform for common issues facing long-term responsible investors. In particular, LGS is involved in groups focused on understanding the investment risks relating to climate change, which is considered to be one of the most serious environmental risks facing the long term prosperity of LGS and its members.

b) LGS is a signatory to the United Nations Principles of Responsible Investment, and a member of ACSI, IGCC and RIAA.

9. Investment restrictions

a) The Trustee has determined that LGS will not make investments in companies that derive <u>any</u> revenues in the following areas of activity:

i) Controversial weapons: Companies involved in the manufacture and/or production of controversial weapons such as land mines, cluster bombs and nuclear weapons
ii) Tobacco: Companies involved in the manufacture and/or production of tobacco products

b) The Trustee has determined that the Fund will not make investments in companies that derive <u>10% or more</u> of their revenues in the following areas of activity:

i) Armaments: Companies involved in the manufacture and/or production of armaments
ii) Gambling: Companies involved in the manufacture and/or production of gambling machines and services and/or ownership of outlets housing these machines
iii) Old growth logging: Companies involved in the logging of old growth forests
iv) Uranium Mining/Nuclear: companies involved in uranium mining and production of

nuclear energy

(c) The Trustee has determined that the Fund will not make investments in companies that derive 33.3% (one- third) or more of their revenues in high carbon sensitive activities.

  i) Companies assessed as being the most vulnerable from the sectors that are evaluated as being highly sensitive to the multiple investment risks associated with climate change. This list will include companies which derive their revenue or assets from coal mining, oil tar sands and coal fired electricity utilities. LGS will reference external research to determine which companies are high carbon sensitive.

(d) The Trustee has determined that the Fund will not make investment in companies exhibiting the following characteristics:

  i) Companies with a high ESG risk profile and exhibiting poor management of these risks. Companies excluded under this screen may come from any industry sector. LGS will reference external research to determine which companies are high ESG risk.

(e) For Australian equities these screens will cover the entire ASX 300 universe. For international equities where LGS invests via a separate managed account, this will cover the entire MSCI ACWI ex Australia benchmark.

(f) Where possible, agreements with investment managers will specify that companies in these restricted industries must be avoided. While these investment restrictions formally only cover the Fund's developed market listed equity investments, the Fund will endeavour to extend them across other asset classes including fixed income, credit and unlisted assets.

10. SRI and High Carbon Overlays

(a) In situations where it is not possible to avoid indirect investment in restricted companies, for example because of index mandates or investments made through pooled trusts, LGS will aim to eliminate exposure to restricted companies by shorting the same number of securities via an overlay process.

(b) This is limited to screening only the largest companies whose market capitalisation represents more than 0.04% of the MSCI ACWI ex Australia index. A separate LGS High Carbon Overlay is also established to manage restrictions under the High Carbon Sensitive screen.

(c) The companies which are replacements for stocks shorted via the SRI Overlay and High Carbon Overlay processes are companies that rank highly on objectively determined sustainability scales. LGS uses the services of qualified research institutions that have been approved by the Committee. For Australian and international shares, LGS uses MSCI ESG Research.

11. Direct property

(a) The Trustee is committed to ensuring that sustainable practices are used in the management of its direct property portfolio, to minimise environmental impact and preserve the long term value of the assets. The LGS Sustainability Policy for Direct Property has been developed and approved with the aim of improving efficiency in the following areas:

  i) Waste reduction and recycling
  ii) Water conservation
  iii) Energy management
  iv) Indoor air quality
  v) Operation and maintenance
  vi) Materials and resources

vii) OH&S and liability management
viii) Environmental risk management.

12. Positive impact investments

(a) The Trustee has developed this Policy to ensure all investments of LGS are sustainable. In addition, there is a desire that some investments are targeted to further offset long term environmental and social risks. These positive impact investments may have positive environmental and social benefits, and may be sourced across all asset classes in which LGS invests.

(b) However, it is essential that these investments have competitive risk and return characteristics relative to the wider universe of potential opportunities. In private asset classes, investments may be made in the areas of clean energy technology and renewable energy. These investments will help offset the risk of punitive emissions legislation. LGS will consider the appointment of equities managers who can identify companies that will benefit from the trend to sustainable business.

13. Active ownership

(a) To manage investment risk and achieve necessary diversification across investments, LGS will always own a large number of shares and other securities such as bonds in Australia and globally. LGS is committed to being an active owner of our investments. Being an active owner means using our shareholder rights to engage with companies on the management of ESG issues to reduce portfolio risk and grow long term shareholder value. LGS maintains an Active Ownership Policy which details these activities.

(b) The two main active ownership strategies include proxy voting and engagement.

i) Proxy voting: LGS votes at shareholder meetings as we believe it is a key element of company engagement, and consider it important to fulfil our ownership obligations and rights that come with being a long-term shareholder. LGS uses external proxy advisors to guide our voting at shareholder meetings. For Australian investments we work with ACSI and for our international investments we work with CGI Glass Lewis. Both of these groups have established guidelines for their voting recommendations. ACSI and CGI Glass Lewis analyse the financial and ESG performance of listed companies and make voting recommendations based on corporate governance best practice.

ii) Company engagement: To help minimise risk and promote long-term shareholder value, we engage with companies in which we invest through a variety of channels, including direct engagement with company board members and executives, via fund managers and via our involvement with industry groups and associations. By engaging with the companies in which we invest, we aim to increase executive awareness of key ESG issues that may impact company operations.

14. Reporting

(a) The Trustee commits to regularly communicate the responsible investment strategy to members of LGS. This includes:

i) the LGS annual report
ii) member newsletters, and
iii) the LGS Responsible Investment Reporting page on the website

(b) The Trustee discloses the full list of directly held companies and reports LGS' voting activities.

(c) Regular internal investment performance reports are submitted to the Trustee on the performance of the SRI Overlay, High Carbon Sensitive Overlay and High Carbon Sensitive Exclusion for their impact on the Fund's overall investment returns.

15. Corporate sustainability

The Trustee is committed to minimising the negative environmental and social impacts of our activities. LGS believes that acting in an ethical and sustainable manner is the best practice approach to successfully managing an organisation over the short, medium and long term. As a result, we endeavour to incorporate environmental and social considerations into all relevant business activities.

16. Policy information

Internal references	Sustainable and Responsible Investment Guidelines Investment Policy Statement Investment Governance Framework Risk Management Framework Due Diligence Policy Active Ownership Policy Sustainability Policy for Direct Property
External references	UN Principles of Responsible Investment
Effective date	October 2019
Review	Annually
Authorisation	This Policy is authorised as follows:

Authorised by	LGS Investment Committee
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