



Proxy voting and engagement **report**

1 January – 30 June 2019



LGS uses proxy advisors to guide our voting at shareholder meetings. For our Australian investments we work with the Australian Council of Superannuation Investors (ACSI) and for our international investments we work with CGI Glass Lewis.

ACSI and CGI Glass Lewis analyse the financial, environmental, social and governance performance of listed companies and make voting recommendations based on corporate governance best practice. As a broad rule we vote in accordance with ACSI Australian and international recommendations, however from time to time we may vote against their recommendations when we believe there is a significant ESG issue which has or could lead to loss of shareholder value.

At Local Government Super (LGS) we take our ownership responsibility as a shareholder seriously. We are committed to being an active owner of our investments and believe that engaging with companies on environmental, social and governance (ESG) issues can address potential risks across our investment portfolio. This assists our obligations to provide strong long-term returns for our members while also providing benefits to the community.

LGS votes at shareholder meetings because we believe that it is important to fulfil our ownership obligations and rights that come with being a long-term shareholder.

The following report summarises our proxy voting activities for the six months from 1st January to 30th June 2019. Our complete proxy voting record including reasons for voting against resolutions and our Proxy Voting Policy are available on our [website](#).

Australian listed companies

Meetings	30
Meetings when LGS voted against resolutions	6 or 20%
Resolutions	143
Resolutions that LGS voted against	9 or 6%
Shareholder resolutions	4
Resolutions voted 'for' by LGS	94%

The following table provides a summary of our 'against' votes.

Against votes by category	
Board related	2
Compensation	3
Shareholder	4

Between January and June 2019, there were 30 company meetings for our Australian listed investments. LGS voted on 100% of the 143 resolutions put forward by company boards and shareholders.

LGS supported 94% of resolutions put forward by company boards and shareholders. This high percentage is due to the majority of resolutions being administrative in nature, where we do not see a clear long-term shareholder value signal to vote against the board of directors.

LGS 'against' votes

In line with our responsibility to invest for our members' long-term retirement needs, our approach to voting aims to promote the interest of long-term investors. This principle forms the basis for LGS voting against company boards on traditional corporate governance issues such as remuneration and board structure. Additionally, in the event that LGS believes a company is exposed to a significant ESG risk which has or could lead to a loss of shareholder value, we may vote against resolutions even if our proxy voting advisors support them.

We voted 'against' on one or more resolutions at 6 company meetings, with 9 'against' votes in total. Our 'against' votes involved areas concerning inappropriate remuneration and executive compensation. Some examples of company votes are noted on the left.

The following are some examples of 'against' votes by company:

Company	Resolution	LGS rationale for vote	Outcome
OceanaGold Corporation	Advisory vote on executive compensation.	Against – We voted against the advisory vote due to director compensation being excessive.	For: 98% Against: 2%
CSR Ltd	Remuneration report.	Against – We voted against the remuneration report due to excessive executive bonuses not reflecting performance. CSR's total shareholder return for the year was minus 30%.	For: 95% Against: 3% Abstain: 1%
CIMIC Group	Remuneration report.	Against – We voted against the remuneration report due to the pay structure being poorly aligned with shareholders.	For: 90% Against: 9% Abstain: 1%

Shareholder resolutions

During this period there were four shareholder resolutions. They were directed around improving their climate change disclosure and increasing shareholder access.

Company	Resolution	LGS rationale for vote	Outcome
QBE Insurance Group Limited	Exposure reduction targets.	Against – We voted against this proposal as QBE has made significant progress in its systems for managing climate change risks.	This resolution was not put to the meeting as it was contingent on an amendment resolution passing.
Rio Tinto Ltd	Transition planning disclosure including scope 3 targets.	Against – We voted against this proposal as RIO has already met substantive issues raised in the proposed resolution. It was unreasonable to expect the company set meaningful targets to reduce scope 3 emissions in the manner proposed by the resolution.	For: 18% Against: 78% Abstain: 3%

Engagement

To help minimise risk and promote long-term shareholder value, we actively engage with the companies in which we invest through a variety of channels, including directly, via our fund managers and through our involvement with the Australian Council of Superannuation Investors (ACSI), the Responsible Investment Association Australasia and the Investor Group on Climate Change.

By engaging in this way, we aim to increase awareness and understanding of current and future ESG issues, improve governance standards and encourage greater disclosure.

LGS participated in ACSI-led engagement meetings with the following companies over the last six months:

Company	Issues discussed					Other issues
	Remuneration	Board structure	Strategy	Disclosure	Climate change	
Woolworths	✓	✓			✓	Human rights
Rio Tinto Ltd				✓	✓	
Origin Energy					✓	CA 100+
AMP Ltd	✓	✓				

International listed companies

Meetings	464
Meetings when we voted against resolutions	279 or 60%
Resolutions	6,387
Resolutions that we voted against	699 or 11%
Shareholder resolutions	232

Against votes by category

Audit/financials	135
Board related	353
Capital management	27
Changes to company statutes	31
Compensation	60
Mergers and acquisitions	0
Meeting administration	4
Other	23
SHP* Compensation	12
Environment	0
Governance	46
Social	8

* SHP: Shareholder Proposal

LGS invests in hundreds of companies listed on international stock exchanges. Given this large number of investments, we employ international proxy advisors CGI Glass Lewis to undertake our voting obligations for companies listed in the largest markets including Austria, Belgium, Bermuda, Brazil, Canada, Cayman Islands, China, Denmark, Finland, France, Germany, Hong Kong, Israel, Italy, Ireland, Japan, Jersey, Korea, Netherlands, Norway, Papua New Guinea, Singapore, Spain, Sweden, Switzerland, Taiwan, United Kingdom, and United States.

Between January and June 2019, there were 464 company meetings for our international listed investments in the countries listed above. LGS voted on 100% of the 6,387 resolutions put forward by company boards and shareholders.

LGS 'against' votes

LGS supported 89% of resolutions put forward by company boards and shareholders. At 279 of the company meetings we voted 'against' management for one or more resolutions, with 699 'against' votes in total. Reasons for voting 'against' resolutions included board independence, inappropriate remuneration and resolutions that were not in the best interest of shareholders such as shortened notice periods for annual meetings.

The following table provides a snapshot of our ‘against’ votes that were a result of the presence of significant ESG issues in international listed companies.

Company	Country	Resolution	LGS rationale for vote
Cybg Plc, Vesuvius Plc, Intel Corp, Huntsman Corp, Walt Disney, PayPal Holdings Inc	United Kingdom United States	Remuneration report and executive compensation packages.	Against – We voted against these due to concerns that there was a disconnect between pay and performance with concerning pay practices.
Man Group plc, Barclays plc, HSBC Holdings, Reach plc, Prudential plc, Whitbread plc	United Kingdom	Authority to set general notice period at 14 days.	Against – We are against this move by companies due to concerns that a shortened notice period for company meetings could disenfranchise shareholders.
O’Reilly Automotive Inc, Markel Corp, Toyota Motor Corporation, Horiba Ltd, Tokyo Broadcasting System Holdings Inc, International Business Machines Corp.	Japan United States	Director re-election.	Against – We are in favour of an independent board. The boards of these companies are not sufficiently independent or there is no independent lead or presiding director.

Shareholder resolutions

During this reporting period there were 264 shareholder resolutions, with details of a number of key resolutions provided below.

Company	Resolution	LGS rationale for vote
Exxon Mobil Corp, Amazon.com Inc, Flowserve Corp, Equinor ASA	Increasing climate change disclosure, development of climate change policy and strategy.	For – We are in favour of increasing responsibility for and disclosure on climate change risks.
Ford Motor Co., Intel Corp., Exxon Mobil, PayPal Holdings Inc, Comcast Corp	Lobbying membership and activity reporting, disclosure on political contributions and expenditures, indirect political spending.	For – We are in favour of increasing disclosure about lobbying activities and reviewing and limiting political spending.
Apple Inc, Target Corp, Citigroup Inc, JPMorgan Chase & Co., Caterpillar Inc.	Proxy access.	For – We are in favour of increasing shareholder access to company board nomination processes.
Laurentian bank of Canada, Mastercard Incorporated	TCFD reporting and Human Rights.	For – We are in favour of increased environmental reporting/responsibility.