

LGS Responsible Investment Snapshot 2019



At LGS we invest on behalf of our members using a responsible investment (RI) approach. We believe that this approach minimises risks, generates better long-term returns, and reflects our members' interests.

LGS is a certified responsible investor, with investments across Australian and international shares, property, infrastructure, private equity, fixed income and absolute return asset classes.

Taking an RI approach means incorporating environmental, social and governance (ESG) considerations into the investment decision making process. To ensure we effectively manage potential ESG risks we use the following strategies:



CERTIFIED BY RIAA¹



Note: All figures provided in this document are as at 31 December 2019.

ESG Integration

Negative screens

We use investment restrictions (negative screens) across our share portfolio to limit our exposure to companies that are involved in controversial or high-risk industries.

Investment Restrictions - Revenue Threshold

Tobacco
Controversial weapons
High ESG risk

0%

Gambling
Armaments
Old growth logging
Uranium mining & nuclear power

>10%

Coal mining
Oil tar sands mining
Coal-fired electricity generation

>33%

Companies involved in the manufacture and/or production of controversial weapons such as land mines, cluster bombs and nuclear weapons.

We screen out >100 companies involved in coal mining, oil tar sands and coal fired electricity utilities.



We currently screen out **272** companies in 29 countries around the world.



ESG integration

SRI overlay

If our fund managers are unable to direct funds away from controversial or high risk companies through investments in co-mingled trusts, we use our Socially Responsible Investing (SRI) overlay to short sell or replace shares with companies that have sound investment and positive ESG profiles.



**Total value added
since 2004**

across Australian and
international shares



\$10.5 million



**ASX
SRI overlay**



+7 basis points p.a.
since 2004



**International
SRI overlay**



+1 basis points p.a.
since 2011



ESG Integration

Positive screens

We seek out investment opportunities that have a positive social and/or environmental impact on society e.g. renewable energy generation, recycling plants, schools and hospitals.



\$4.7 billion in sustainable & low carbon investments

Australian shares – we seek to invest in positive impact areas like waste management and recycling.

International shares – we invest in a fund (Impax) where all companies must derive 50% of revenue from resource efficiency and environmental markets e.g. renewables, energy and water efficiency and sustainable agriculture – returned 17.15% p.a. since 2013.

Fixed interest – we have three green bond mandates across Australian and global corporate and government bonds with investments in green property, energy efficiency and renewable energy generation.

Private equity - clean technology mandate covering renewable energy technologies and generation.

Infrastructure – we invest in solar and wind energy funds.

Property – we have an internally managed green property portfolio with:

- Carbon Neutral status for all NABERS rated buildings - certified by the Government's Climate Active Carbon Neutral Standard
- Portfolio Average NABERS Energy rating of 5.1 stars without GreenPower (6 stars with GreenPower)
- Portfolio Average NABERS Water rating of 3.7 stars
- 4 stars in the 2019 GRESB Survey (Global Real Estate Sustainability Benchmark)
- 5 star GBCA (Green Building Council of Australia) GreenStar Performance rating (Australian excellence)
- 89% of tenants signed up to 100% GreenPower.



\$80 million

invested in community infrastructure

including schools and hospitals across Australia



ESG Integration

Investment practices

We monitor our investments for ESG risks and engage with our fund managers and advisers on how to integrate ESG considerations into the investment process.



ESG audits results:

Every

months



We assess our Australian and international shares managers on the ESG and carbon performance of the companies in their portfolios



We monitor our exposure to high and low-rated companies to better understand risks and opportunities

Carbon footprint performance (WACI):



International shares
(developed markets)

=

29%

below the MSCI ACWI (ex. Australia) index



Case study:

Hermes Investment Management

Hermes manages an international share mandate for LGS. They integrate ESG analysis and company engagement information into their investment decision making process and have achieved returns of

>> 18.02% p.a.



since they started investing for LGS in 2012. We also work with Hermes to identify high ESG risk companies that we exclude from our investment universe.

Active ownership

Company engagement

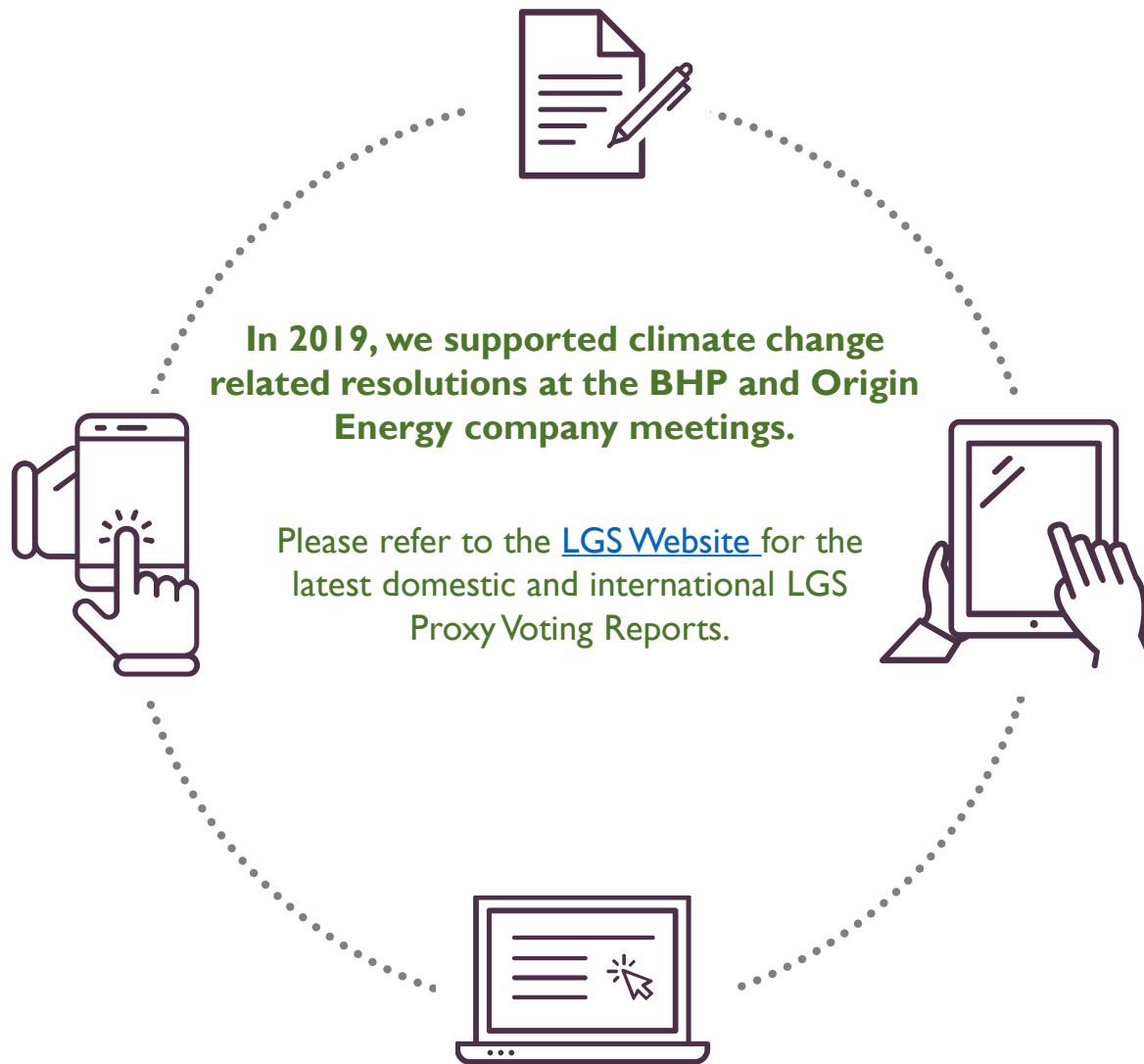
We actively engage with companies about ESG issues through one-on-one meetings, briefings, phone calls and letters.

10
Direct engagements

264
Engagements
conducted on our behalf
by our partners

ESG issues addressed:

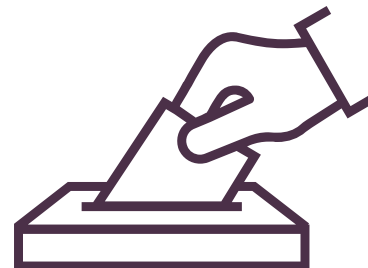
- executive remuneration and corporate governance
- board governance, diversity and continuity
- climate change, disclosure and management risk
- human and labour rights



Active ownership

Proxy voting

We vote at shareholder meetings for the companies in our portfolio and publish our decisions before the meetings to ensure transparent voting practices at [lgsuper.com.au/proxy voting](https://lgsuper.com.au/proxy-voting)



We voted at

100%

of our company meetings in 2019

683

company meetings

8,036

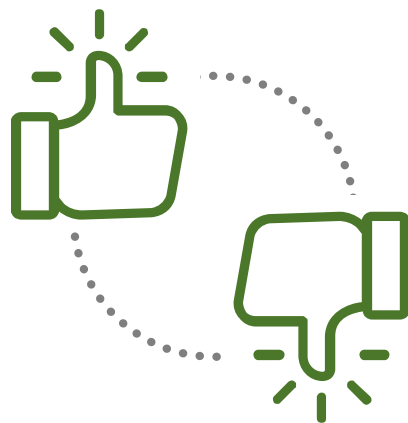
resolutions and votes cast

902

against votes

In 2019, we **voted against resolutions** relating to remuneration and governance at Telstra, Amcor and Worley Parsons in Australia.

At Origin Energy, we voted in support of a constitutional amendment to allow for advisory resolutions and for an increase in the company's advocacy on climate change and energy reporting.



Key reasons for against votes:



- Compensation
- Audit/financials
- Board accountability and independence
- Capital management
- Changes to company statutes

Active ownership

Industry collaboration

We work with the superannuation industry to advocate for change on environmental, social and governance risks across industries. We are members of the UNPRI, ACSI, IGCC and RIAA.



In 2019/2020 our public policy and regulatory engagement was undertaken via our involvement with the IGCC and ACSI. Issues included Modern Slavery, Corporate Governance, Treatment of Unequal Voting, UN Sustainable Development Goals and Whistleblowing.

We are a participant of the new globally significant 5 year collaborative engagement program, Climate Action 100+, which aims to engage with top listed companies around the world to drive clean energy transition and achieve the Paris Agreement goals.

Through our work with ACSI we engaged with Qantas to ensure they address human rights and climate change issues.



Active Ownership

Transparency

We disclose comprehensive information about our responsible investment practices to raise awareness about how we manage our members' retirement savings.

Issued by LGSS Pty Limited (ABN 68 078 003 497) (AFSL 383558), as Trustee for Local Government Super (ABN 28 901 371 321).

1. The Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations. The Symbol also signifies that Local Government Super has adopted strict disclosure practices required under the Responsible Investment Certification Program for the category of Product Provider. The Certification Symbol is a Registered Trade Mark of the Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Symbol and Local Government Super's methodology, performance and stock holdings can be found at www.responsibleinvestment.org, together with details about other responsible investment products certified by RIAA.²
2. The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.
3. From 1 January 2019 to 31 December 2019.

