ACT Government

Chief Minister, Treasury and Economic Development

RESPONSIBLE INVESTMENT POLICY

FOR THE FINANCIAL INVESTMENT ASSETS MANAGED BY THE CHIEF MINISTER, TREASURY AND ECONOMIC DEVELOPMENT DIRECTORATE
("TREASURY")

MADE IN ACCORDANCE WITH THE *FINANCIAL MANAGEMENT INVESTMENT GUIDELINES 2015* AND THE *SUPERANNUATION MANAGEMENT GUIDELINES 2015*
("INVESTMENT GUIDELINES")

This Responsible Investment Policy, unless expressly indicated to do so, does not have an exhaustive and binding effect on all investments and investment processes. Where this policy is silent or conflicts with a provision of the Investment Guidelines, the terms of the Investment Guidelines prevail.

Version Control

Version No.	Date	Comments	Approver
1	July 2012	Policy as agreed by the Government and presented to the Legislative Assembly in August 2012	Cabinet
2	May 2014	Updated to reflect revised voting framework and transfer of investment objectives and beliefs to Investment Plan document	Treasurer
3	August 2015	Incorporating enhancements following the review of the Investment Management Guidelines (DI2015-238, DI2015-239)	Treasurer
4	November 2015	Amend Territory Banking Account investment exposures	Treasurer
5	January 2018	Additional disclosure about Investment Implementation Limitations	Treasurer
6	December 2018	Reflects the revised investment structure following a reorganisation of the investment funds on the Master Custody and Investment Administration structure	Treasurer

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PURPOSE

This Responsible Investment Policy has been established by the ACT Government for the financial investment assets managed by the Chief Minister, Treasury and Economic Development Directorate (CMTEDD), represented by Treasury.

To facilitate an efficient cash and investment management structure, a centralised 'unitised' investment administration structure is provided by Treasury that can provide for a number of different investment options to meet the specific investment objectives of Directorates and Territory Authorities.

The financial investment assets are diversified across a number of different asset classes including money market securities, fixed interest, equities, unlisted property, private equity and infrastructure assets. No investments are undertaken directly (in-house). External specialist fund managers are appointed to manage the financial investment assets through segregated mandates (separately managed accounts under an investment management agreement) and wholesale managed funds (unlisted pooled unit trust products).

This Responsible investment Policy document is not intended to be a detailed operational narrative but a description of the key elements and implementation actions of the Responsible Investment Policy for the financial investment assets managed by Treasury.

This Policy is to be read, implemented and managed in conjunction with the *Investment Governance Policy* and *Individual Agency Investment Plans* (refer http://apps.treasury.act.gov.au/publications).

LEGISLATIVE REQUIREMENTS

The authority for the investment of Directorate or Territory Authority moneys is provided through the *Financial Management Act 1996* (FMA) and the *Financial Management Investment Guidelines 2015* (Financial Management Guidelines).

- Section 38 of the FMA provides that the Treasurer may invest any money held in the Territory Banking Account or Directorate Banking Accounts in any investment prescribed under the Financial Management Guidelines.
- Section 58 of the FMA provides that funds not immediately required for the purposes of a Territory Authority may be invested by the Treasurer, for the Territory Authority, in an investment mentioned in section 38.

Where parts of an Administrative Unit ('Directorate') have been prescribed as separate Administrative Units and these entities have separate legislative provisions, the relevant acts provide for the investment of moneys by the Treasurer. This includes:

- Section 11 of the *Territory Superannuation Provision Protection Act 2000* and the *Superannuation Management Investment Guidelines 2015*; and
- Section 80 of the *Lifetime Care and Support (Catastrophic Injuries) Act 2014*.

The Investment Guidelines requires that any investments may only be made in accordance with an *'Investment Plan'* and the *'Responsible Investment Policy'* which must be approved in writing by the Treasurer.

Investment Plan means details about the investment risk and return objectives, strategic asset allocation and investment governance:

- the investment risk and return objectives and strategic asset allocations for each investing Directorate or Territory Authority entity are set out in individual *Investment Plans*; and
- the details about investment governance are set out in the *Investment Governance Policy Framework*.

Responsible Investment Policy means a responsible investment statement of objectives; details about the responsible investment framework; and share voting arrangements, and any other information considered relevant for a Territory Investment Portfolio.

RESPONSIBLE INVESTMENT POLICY STATEMENT

The purpose and role of the financial investment assets managed by Treasury is to derive competitive financial returns, based on prudent financial and portfolio management principles, with an investment structure that is low cost, efficient to manage, and effective in deriving market-based returns.

The ACT Government recognises that financial as well as environmental, social and corporate governance (ESG) performance of companies can impact long-term investment value and performance. The Government considers that ESG risks and ownership responsibilities should be incorporated in investment decision-making processes in order to mitigate investment risk and improve the sustainability of the investments for the long term.

RESPONSIBLE INVESTMENT OBJECTIVE

The responsible investment objective is to generate both financial and sustainable (long-term) value. The objective of the Responsible Investment policy is to focus on long-term value creation for the Government's financial investments, including not just economic value but also broader values such as sound corporate governance and environmental sustainability.

The approach adopted to meet the responsible investment objective is to combine financial and non-financial criteria in the selection and management of the financial investment portfolio assets.

INVESTMENT GOVERNANCE

The Treasurer has the ultimate responsibility for approving the Responsible Investment Policy.

The Under Treasurer has responsibility for investment governance implementation and operational policy and management activities.

Operational investment decisions and authorisations are made by the relevant Treasury officials in accordance with their financial delegations provided by the Treasurer, delegated in accordance with the relevant provisions of the *Legislation Act 2001*.

RESPONSIBLE INVESTMENT POLICY FRAMEWORK

PRINCIPLES FOR RESPONSIBLE INVESTMENT

Reflecting the relevance of ESG issues on current investment practices, the ACT Government made the Australian Capital Territory (the "Territory") a signatory to the United Nations Principles for Responsible Investment (PRI) on 1 July 2008 under the category of 'asset owner' in relation to the financial investment assets managed by Treasury.

The Principles are voluntary and aspirational and do not call for the exclusion, screening or divestment of particular companies or industry sectors.

A key objective of the Principles is to incorporate ESG risks and issues into investment analysis and decision-making processes.

The PRI establishes a collective international framework for institutional investors to integrate ESG considerations into investment decision-making practices. The Principles acknowledge that institutional investors have a duty to act in the best long-term interests of beneficiaries and that ESG issues can affect the performance of investment portfolios.

The six Principles are expressed as follows:

Principle 1:	We will incorporate ESG issues into investment analysis and decision-making processes
Principle 2:	We will be active owners and incorporate ESG issues into our ownership policies and practices
Principle 3:	We will seek appropriate disclosure on ESG issues by the entities in which we invest
Principle 4:	We will promote acceptance and implementation of the Principles within the investment industry
Principle 5:	We will work together to enhance our effectiveness in implementing the Principles
Principle 6:	We will each report on our activities and progress towards implementing the Principles

By signing the PRI, the ACT Government has committed to adopt and implement the Principles.

GLOBAL NORMS-BASED INVESTMENT CRITERIA

Supporting the Government's commitment to apply the PRI in the management of the financial investment assets, the financial analysis and decision-making process for investment in directly-owned company shares takes into account norms-based investment criteria that are consistent with internationally recognised norms and conventions relevant to responsible investment.

The norms-based investment criteria applied are based on the United Nations Global Compact. The Compact comprises ten principles that establish a set of core values for companies in the areas of human rights, labour standards, the environment and anti-corruption, and that enjoy universal consensus. The principles are derived from: The Universal Declaration of Human Rights; The International Labour Organisation's Declaration on Fundamental Principles and Rights at Work; The Rio Declaration on Environment and Development; and The United Nations Convention against Corruption.

The ten principles are expressed as follows:

Human Rights	
Principle 1:	Businesses should support and respect the protection of internationally proclaimed human rights
Principle 2:	Businesses should not be complicit in human rights abuses
Labour	
Principle 3:	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
Principle 4:	The elimination of all forms of forced and compulsory labour
Principle 5:	The effective abolition of child labour
Principle 6:	The elimination of discrimination in respect of employment and occupation
Environment	
Principle 7:	Businesses should support a precautionary approach to environmental challenges
Principle 8:	Businesses should undertake initiatives to promote greater environmental responsibility
Principle 9:	Businesses should encourage the development and diffusion of environmentally friendly technologies
Anti-Corruption	
Principle 10:	Businesses should work against corruption in all its forms, including extortion and bribery

The Responsible Investment Policy recognises that it is unrealistic to expect to be able at all times to identify all companies that are complicit in serious violations of norms worldwide. The norms-based criteria are applied as part of the overall investment analysis and decision-making framework for investment in directly-owned company shares.

IMPLEMENTATION OF THE RESPONSIBLE INVESTMENT POLICY

INVESTMENT EXCLUSIONS (NEGATIVE SCREENING)

The Government supports a limited use of business activity or industry exclusion-based (negative) screening forming part of the principal strategy of action to give effect to responsible investment. The Government accepts that in specific instances where there are particularly strong policy positions and public support, there is a place for the exclusion of a limited number of business activities or industries.

The business activity exclusions that apply to directly-owned company share investments, based on reasonable grounds that all, or a material, or in specific circumstances, any part of the company's revenue or core business is attributable to the following activities, are: the manufacture of tobacco and related products; and the manufacture of cluster munitions and landmines.

ESG AND GLOBAL NORMS INTEGRATION

The Responsible Investment Policy framework includes the integration of an ESG and international norms-based risk assessment in relation to directly-owned company share investments.

The ESG risk assessment considers significant exposures to potential ESG risk and investment valuation impacts arising from changing global macro ESG trends. A key element of a company's ESG risk assessment is the company's ability to reduce its contributions to an externality, and/or its ability to internalise the associated costs. The international norms-based risk assessment considers involvement in one or more very severe ESG controversies related to a company's operations and/or products.

The environmental performance of listed companies are assessed on issues such as carbon emissions, carbon footprint, energy efficiency, impact from climate change, water stress, biodiversity and land use, raw material sourcing and scarcity, toxic emissions and waste, packaging materials and waste and electronic waste.

The social performance of listed companies are assessed on issues such as human capital development, labour management including child labour, diversity, discrimination, and labour disputes, health and safety, supply chain standards, controversial sourcing, product safety and quality, chemical safety, privacy and data security, and nutrition and health.

The governance performance of listed companies are assessed on issues such as corruption and fraud, business ethics, anti-competitive behavior and practices, diversity and Board structure, executive remuneration, as well as other corporate governance practices and standards.

IMPLEMENTATION LIMITATIONS

Investment strategy implementation is achieved through a variety of investment structures which are utilised subject to a range of considerations including: the required investment strategy, access to professional management, the size of investment and the potential for investment efficiencies through economies of scale, the potential investment risks including investment liquidity and diversification, as well as the potential fees and costs.

Investment implementation options include the use of:

- an actively-managed investment strategy where the investment manager aims to outperform the return of the relevant index performance benchmark using a separate discrete mandate where the Territory directly owns the investment securities;
- an index-managed investment strategy where the investment manager aims to match the return of the relevant index performance benchmark using a separate discrete mandate where the Territory directly owns the investment securities; or
- an actively-managed or index-managed investment strategy where the investment manager either aims to outperform the return of the relevant index performance benchmark or match the return of the relevant index performance benchmark using pooled unit trusts (single or multi-asset class pooled unit trusts) where the Territory owns an indirect beneficial interest in the returns and value of the underlying unit trust assets.

Where investment implementation is through the use of single or multi-asset class pooled unit trusts, it may not possible to implement any or all features of the Responsible Investment Policy framework.

ACTIVE OWNERSHIP AND ENGAGEMENT

Active ownership and engagement is defined as:

- Being aware of, and monitoring key ESG issues in the context of directly-owned share selection and portfolio construction;
- Making full use of the rights of ownership through actively exercising voting rights in relation to directly-owned company share investments; and
- Constructive shareholder engagement activity, undertaken via out-sourced external specialist providers, in relation to ESG research and analysis of corporate and operational risks through the communication of results of peer comparison, as well as engagement with listed companies though proxy voting research and analysis, proposed voting actions and voting outcomes.

SHARE VOTING

As a shareholder and owner of listed company investments, the ACT Government votes all directly-owned shares for the promotion of effective corporate governance, environmental and social practices, as well as long term value creation.

The ACT Government utilises the services of a global proxy voting advisor. The proxy voting advisor provides the ACT Government with research and voting recommendations on all company governance matters based on the application of a Sustainability Proxy Voting Policy framework and guidelines which is aligned with the requirements of being a signatory to the PRI and the Government's Responsible Investment Policy.

The proxy voting policy framework provides clear and comprehensive policy-guided share voting research and vote recommendations, has a focus on the adoption of, or adherence to, relevant norms, standards and codes of conduct or universally recognised international initiatives to promote disclosure and transparency. The policy framework generally supports standards-based ESG shareholder proposals that enhance long-term shareholder and stakeholder value while aligning the interests of the company with those of society at large.

The share voting policy guidelines cover a very broad range of corporate governance activities and reporting and are generally applied and assessed on a case-by-case basis. The key objectives of the proxy voting policy are to:

- make full use of the rights of ownership through exercising voting rights to exert influence on a company's management and policies to improve risk mitigation and to promote best practice corporate governance standards and corporate social responsibility; and
- vote in a manner which maximises long-term value creation for the ACT Government's share investments, including not just economic value, but also broader values such as sound corporate governance and environmental sustainability.

PROCUREMENT ACTIVITY

All relevant financial investment related procurement activity includes an assessment of ESG capabilities and methodologies when appointing external investment service providers, including requesting whether the service provider is a signatory to the PRI. Where relevant, contracts include ESG-related clauses as a requirement of the relationship.

REPORTING AND DISCLOSURE

Reporting and disclosure of responsible investment related activity is available from the Treasury website (https://apps.treasury.act.gov.au/publications). This includes the disclosure of:

- Responsible Investment Policy;
- Investment Governance Policy;
- Investment Plans;
- Territory directly-owned share holdings (updated quarterly);
- Sustainability Proxy Voting guidelines; and
- Share voting activity for the financial year (updated quarterly).