



ACT
Government

RESPONSIBLE INVESTMENT POLICY

FOR THE FINANCIAL
INVESTMENT ASSETS
MANAGED BY ACT TREASURY

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

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
7	January 2022	Investment Criteria Update and Amendments	Treasurer
8	March 2023	Investment Criteria Update and Amendments	Treasurer
9	June 2024	Annual Update	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, 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 several different investment options to meet the specific investment objectives of Directorates and Territory Authorities with financial investment requirements.

The Government's financial investments are implemented and managed through the Territory Banking Account investment platform. The Territory Banking Account undertakes the external financial investment activities in the name of the Australian Capital Territory.

The financial investment assets are diversified across several different asset classes incorporating money market securities, debt securities and shares, as well as unlisted property, private equity and infrastructure assets.

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 have been prescribed as separate directorates 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*;
- Section 80 of the *Lifetime Care and Support (Catastrophic Injuries) Act 2014*; and
- Section 14 of the *Public Sector Workers Compensation Fund Act 2018* and the *Public Sector Workers Compensation Fund (Investments and Funding Ratio) Management Guidelines*.

The Investment Guidelines require that any investments must 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. The Government considers that ESG risks and ownership responsibilities should be incorporated in investment decision-making processes to mitigate investment risk and improve the sustainability of returns over the long term.

RESPONSIBLE INVESTMENT OBJECTIVE

The responsible investment objective is to generate both financial and sustainable long-term value through the consideration and incorporation of ESG factors in the investment decision-making process.

IMPLEMENTATION OF THE RESPONSIBLE INVESTMENT POLICY FRAMEWORK

Responsible investment issues are considered:

- in the implementation of the investment strategy and asset allocation processes;
- in the selection and appointment of investment managers through procurement processes and, where relevant, contractual arrangements;
- in the full use of the rights of ownership through exercising proxy voting rights in relation to the listed company share investments; and
- in the ongoing monitoring of investment managers through ongoing dialogue and the requirement for regular qualitative and quantitative reporting.

Treasury does not undertake in-house investment activities. External, institutional investment managers are appointed to manage relevant financial assets on behalf of the Territory. The investment managers are engaged to make independent, commercial investment decisions.

Investments are implemented through:

- separately managed accounts with an investment management agreement where the Territory is the owner of the assets and has direct control over the investments; and
- wholesale managed funds which are unlisted unit trust products where the Territory invests in a pooled fund along with other institutional investors or as a sole investor and owns units which represent an ownership interest in the trust assets.

The type of investment implementation has implications for the application of the Responsible Investment policy.

SEPARATELY MANAGED ACCOUNT ASSET CLASS INVESTMENT IMPLEMENTATION

LISTED COMPANY SHARE INVESTMENTS

In relation to listed company share investments, and with the support of MSCI, an ESG analysis expert and professional index vendor, the Government has developed custom ESG share indexes to directly control the company investments.

The custom ESG share indexes are based on global and Australian parent share indexes with the companies included in these indexes screened and assessed on an ongoing basis across multiple business activity exclusions and ESG factors. Any company included in the parent index that is identified through this screening framework is excluded from the custom ESG index construction and is not available for investment.

LISTED COMPANY SHARES - COMPANY BUSINESS ACTIVITY EXCLUSIONS

The Government supports limited use of business activity or industry exclusion-based (negative) screening forming part of the strategy 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 listed company share investments include:

- Companies that manufacture tobacco products, such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco. This also includes companies that grow or process raw tobacco leaves.
- Companies where there is strong evidence of involvement in controversial weapons, comprising cluster munitions, landmines, biological/chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments.
- Companies that manufacture nuclear weapons including warheads and missiles, nuclear components and delivery platforms, or that are involved in the production and/or storage of fissile materials used in/for nuclear weapons, or that provide auxiliary services related to nuclear weapons, such as repair and maintenance.
- Companies deriving revenue greater than 10 per cent from gambling operations where a company owns or operates gambling facilities such as casinos, racetracks, bingo parlours, or other betting establishments, including horse, dog or other racing events

that permit wagering, lottery operations, online gambling, pari-mutuel wagering facilities, bingo, pachislot and pachinko parlours, slot machines, mobile gambling and sporting events that permit wagering.

- Companies deriving revenue greater than 10 per cent from gambling support where a company provides key products or services fundamental to gambling operations including slot machines, roulette wheels, lottery terminals, gambling technology and support such as IT maintenance, software design, security or surveillance systems and lottery ticket printing and gambling-related services such as credit lines, casino management and consultation.
- Companies that own proven fossil fuel reserves including oil and gas and proven and probable coal reserves, including metallurgical and thermal coal reserves.

Companies identified to be involved in these business activities are excluded from inclusion in the custom ESG indices and are not available for investment.

LISTED COMPANY SHARES – COMPANY ESG RISK ASSESSMENT EXCLUSIONS

The Responsible Investment Policy framework includes the integration of an ESG risk assessment in relation to the listed 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. The risk rating identifies what are the most significant ESG risks and opportunities facing a company and its industry, how exposed the company is to those key risks and how well the company is managing those risks.

The environmental performance of companies is 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 companies is 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 companies is 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.

Companies assessed with the highest ESG risk rating relative to their peers in the industry are excluded from the custom ESG indices and are not available for investment.

LISTED COMPANY SHARES – COMPANY ESG CONTROVERSY ASSESSMENT EXCLUSIONS

The Responsible Investment Policy framework includes the integration of an ESG controversy assessment in relation to our listed company share investments.

The norms-based investment criteria are consistent with internationally recognised norms and conventions relevant to responsible investment such as The Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, The United Nations Global Compact Principles, The United Nations Guiding Principles on Business and Human Rights, The Universal Declaration of Human Rights, The International Labour Organisation’s conventions, The Rio Declaration on Environment and Development and The United Nations Convention against Corruption.

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 controversy assessment identifies and excludes investment where a company is assessed as having a very severe ESG controversy related to their operations, governance practices, and/or products and services that allegedly violates national or international laws, regulations and/or commonly accepted global norms.

Companies identified to be involved in very severe ESG controversies are excluded from inclusion in the custom ESG indices and are not available for investment.

LISTED COMPANY SHARES – COMPANY CLIMATE CHANGE RISK ASSESSMENT EXCLUSIONS

As low carbon transition takes place, there will be reduced demand for carbon intensive products and services, as well as increased operational and/or capital costs due to carbon taxes or other emissions mitigation measures, putting carbon-intensive companies and industries at risk of asset stranding or low profitability in the future.

To assist in managing low carbon transition risks the Responsible Investment Policy framework includes a maximum allowable threshold for a company’s carbon emissions and carbon intensity including:

- Companies with greenhouse gas emissions (Scope 1&2) more than 40 million metric tonnes, based on the most recently reported or estimated Scope 1&2 emissions; and

- Companies with carbon emissions intensity greater than 3,000 metric tonnes, based on the most recently reported or estimated Scope 1&2 emissions intensity.

Companies identified with carbon emissions and/or carbon intensity of business operations that exceed the maximum allowable thresholds are excluded from the custom ESG indices and are not available for investment.

INTERNATIONAL SOVEREIGN BOND INVESTMENTS

In relation to international sovereign bond investments, and with the support of MSCI, the Territory has developed a custom ESG international sovereign bond index to directly control the sovereign bond securities allowed for investment.

The custom ESG index includes exposure to high-quality, income-generating fixed interest securities issued by Developed Market Governments globally with an investment grade credit rating.

The custom index includes the integration of an ESG Government rating assessment. The rating provides a weighted assessment of a country's performance on ESG risk factors such as natural resources, environment externalities and vulnerability, human capital, economic environment, financial governance and political governance. The rating reflects a country's exposure to and management of ESG risk factors which may affect the long-term sustainability and competitiveness of their economies.

Countries identified with a rating below the minimum allowable rating threshold are excluded from the custom ESG index and are not available for investment.

AUSTRALIAN SOVEREIGN BOND INVESTMENTS

Investment is limited to Australian Government and semi-government fixed interest securities.

INVESTMENT GRADE CREDIT INVESTMENTS

Investment is limited to predominately Australian investment grade corporate bonds, floating-rate notes, asset-backed securities and short-term securities.

An ESG assessment framework and ESG rating scale integrates an assessment of ESG factors throughout the security selection and credit analysis process and actively considers current and emerging ESG issues for capital preservation to avoid issuers that may suffer credit quality deterioration.

Relevant ESG factors, which vary across industries, sectors and issuers, can include Board composition, management experience and track record, potential regulatory risks and developments, sustainability track record, environmental footprint and workplace safety.

MANAGED FUND ASSET CLASS INVESTMENT IMPLEMENTATION

For investment implementation using managed funds that provide exposure to additional asset classes such as alternate debt, unlisted property, unlisted infrastructure and private equity the management of ESG risks and sustainability issues are considered:

- in the implementation of the investment strategy and asset allocation processes;
- in the selection and appointment of investment managers and managed funds through Territory procurement processes; and
- in the ongoing monitoring of investment managers and assets through ongoing dialogue and the requirement for regular qualitative and quantitative reporting.

ACTIVE OWNERSHIP

Active ownership includes:

- being aware of, and monitoring key ESG risks and issues in the context of our portfolio construction and investment exposures;
- making full use of the rights of ownership through actively exercising voting rights in relation to the listed 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, and in relation to engagement and dialogue for proxy voting research and analysis, voting recommendations and proposed voting actions.

PROXY VOTING

As a shareholder and owner of listed company investments, proxy voting is undertaken for all listed company shares with the objective of the promotion of effective corporate governance, environmental and social practices, as well as long-term value creation.

Proxy voting activity is supported using a global proxy voting advisor. The proxy voting advisor provides comprehensive research and voting recommendations on all company governance matters based on the application of a Sustainability Proxy Voting policy framework and guidelines which are aligned with the Responsible Investment policy.

The key objective of the proxy voting policy framework is 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.

The proxy voting policy framework provides clear and comprehensive policy-guided share voting research and vote recommendations applied on a case-by-case basis. The Sustainability proxy voting guidelines are informed by examination of ESG topics designed to identify ESG risks and employs the use of ESG risk indicators to identify moderate to severe ESG risk factors at public companies and covers topics including environment, human rights and impacts of business activities on local communities, labour rights and supply chain risks, consumer product safety, bribery and corruption, and governance and risk oversight failures.

The Sustainability guidelines support:

- proposals that promote greater disclosure of corporate environmental policies including climate change and greenhouse gas emissions;
- proposals that promote greater transparency regarding social policies such as those concerning workplace discrimination and corporate board diversification efforts, human rights, and compliance with human/labour rights norms/codes of conduct;
- proposals that promote reporting on sustainable business practices including recycling, water use, operations in sensitive or protected areas, energy efficiency/renewable energy, and incorporation of sustainability-related performance metrics into executive compensation; and
- ESG shareholder proposals that enhance long-term shareholder and stakeholder value while aligning the interests of the company with those of society at large.

Proxy votes are made in accordance with the recommendations arising from the application of the Sustainability Proxy Voting Policy framework and guidelines.

PROCUREMENT ACTIVITY

All relevant financial investment related procurement activity includes an assessment of ESG capabilities and methodologies when appointing external investment service providers.

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:

- the Responsible Investment policy;
- the Investment Governance policy;
- Investment Plans;
- Territory listed company share holdings (updated quarterly);
- Sustainability Proxy Voting guidelines;
- Share voting activity for the financial year (updated quarterly); and
- Responsible Investment policy annual summary report.