

FINAL REPORT

PROVISION OF AN INDEPENDENT REVIEW OF THE GOVERNMENT'S CURRENT INVESTMENT PRACTICES TO DETERMINE HOW THE UN PRINCIPLES FOR RESPONSIBLE INVESTMENT ARE BEING ADDRESSED

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Executive Summary

On 1 July 2008 the Australian Capital Territory endorsed the United Nations backed Principles for Responsible Investment.

Endorsing the Principles, ACT Chief Minister and Treasurer Jon Stanhope stated:

“By taking the extra step of signing the Principles, the ACT Government is publicly committing to adopting and implementing them, consistent with its fiduciary responsibilities. The ACT Government also commits to evaluate the effectiveness and improve the content of the Principles over time and believes that this will improve the ability of the ACT to meet its financial commitments as well as better aligning the investment activities with the broader interest of society.”

The ACT Government has commissioned an independent review of the Government’s current investment practices to determine how the UN Principles for Responsible Investment are being implemented, and whether the implementation is sufficient and appropriate.

In considering this question it is important to ensure that there is an understanding of what responsible investment is, and what it isn’t.

Whilst a universal definition of ‘responsible investment’ does not exist, it is synonymous with an approach to investment that combines incorporation of environmental, social and governance (ESG) issues into investment processes coupled with a process of active engagement.

The principal thesis of responsible investment is that for large institutional investors, who are effectively invested across the whole economy, proactive engagement can play a major role in encouraging high-quality corporate governance that will deliver long-term shareholder returns, while also offering the potential to deliver broad societal benefits.

Over recent years responsible investment has become synonymous with the Principles for Responsible Investment (“PRI”), an initiative of the United Nations that was launched by United Nations’ Secretary-General Kofi Annan in April 2006.

Signatories to the PRI commit to the following six principles:

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

Nearly four years after the PRI was first established, nearly 700 signatories, accounting for \$US18 trillion have committed to the six principles. Australia represents almost one in seven of all signatories to the PRI with 95 signatories.

The ACT Government became a signatory to the Principles for Responsible Investment on 1 July 2008.

The investments of the Australian Capital Territory managed by ACT Treasury consist of the Superannuation Provision Account investment portfolio and the Territory Banking Account investment portfolio. These investments are governed under the *Financial Management Act 1996* and the *Territory Superannuation Provision Protection Act 2000*.

The focus of this report has been to consider ACT Treasury's implementation of the PRI based on its two core investment portfolios: the Superannuation Provision Account and the Territory Banking Account.

ACT Treasury's implementation of the PRI has been reviewed according to the seven core areas of the PRI:

- Governance, Policy and Strategy
- Principle 1 – ESG Integration
- Principle 2 – Active Ownership
- Principle 3 – ESG Disclosure
- Principle 4 – Promotion
- Principle 5 – Collaboration
- Principle 6 – Reporting

The following comments are made in respect of ACT Treasury's implementation of the PRI:

- ACT Treasury has developed an ESG Policy for the Superannuation Provision Account (SPA), which is to be viewed in the context of ACT Treasury's existing investment policy for the SPA, which should in turn be considered in terms of the Financial Guidelines established through the *Territory Superannuation Provision Protection Act 2000*. Overall it is considered that ACT Treasury's ESG Policy has all the elements for an appropriate and sufficient responsible investment policy.
- ACT Treasury has complied with the PRI's requirement to participate in an annual Reporting and Assessment Survey. The survey benchmarks the performance of signatories in respect of individual principles. Of note, ACT Treasury's performance in the Governance, Performance, Strategy (GPS) category is strong. ACT Treasury is rated as being in the second quartile relative to asset owners in Asia-Pacific and in Australia. The GPS category is important in that it seeks to benchmark the overall governance framework that has been established to

implement the Principles. It is considered that this is critical to implementing the Principles over the long term.

- ACT Treasury's integration of ESG in its equities portfolio, by:
 - contracting with an ESG research specialist
 - engaging with investment managers and
 - varying investment management agreements

is consistent with the current practice of other comparable asset owner signatories and is an appropriate and sufficient response.

- ACT Treasury's decision to contract with an outsourced engagement specialist to provide an engagement service in respect of Australian equities investments represents an appropriate strategy to adopt.
- ACT Treasury is reporting on its implementation program through:
 - the PRI assessment process
 - established parliamentary processes, including a regular parliamentary estimates process that involves ACT Treasury being available for questioning by members of the Legislative Assembly,
 - the ACT Treasury Annual Report.

This level of scrutiny is considered to be in excess of the practice of other asset owners and is sufficient and appropriate.

It is considered that ACT Treasury has made considerable progress implementing the PRI since it endorsed the Principles on 1 July 2008.

ACT Treasury's approach has been methodical and thorough and has established a strong foundation for the future.

Given the developmental nature of the Principles for Responsible Investment it is considered that ACT Treasury has developed systems and processes to implement its commitments that are consistent with the practice of other PRI signatories, both in Australia and internationally.

ACT Treasury's approach to implementation of the PRI is considered to be both appropriate and sufficient.

Future Considerations

The PRI are regarded as 'a work in progress' that provide 'a direction to head in rather than a prescriptive checklist with which to comply.' Given the infancy of the PRI initiative, and the fact that the bulk of the PRI signatory body has participated in the PRI community for less than two years, it is

expected that there will be significant developments in responsible investment practice in the coming years, as signatories embed the Principles in their core investment processes.

This report provides a number of recommendations as to how ACT Treasury's implementation of the PRI can evolve over time.

A core internal objective for ACT Treasury officials should be to develop a plan to ensure that ACT Treasury's implementation of PRI is not static, but evolves over time.

The following recommendations are made in respect of the ongoing implementation of the PRI by ACT Treasury.

1. ACT Treasury should aim to be an active member of the PRI community. ACT Treasury should participate in PRI forums that are consistent with its interests and should regularly review the tools and services provided by the PRI to assess their suitability and relevance to ACT Treasury's responsible investment implementation program. ACT Treasury should aim to be represented at key PRI events, most particularly the PRI Annual Conference, which provides an opportunity for the PRI signatory body to be involved in the development of the PRI through the Annual General Meeting. ACT Treasury should seek to attend this annual conference each year.
2. ACT Treasury should develop management performance tools that could assist ACT Treasury officials to monitor their own progress implementing the PRI. Specific areas where management performance tools can be developed include: ESG equity risk scores, training, engagement and the PRI Reporting and Assessment Survey.
3. ACT Treasury should develop an internal management process to ensure consistency between its engagement programs and dialogue with its investment managers. This could consist of an annual overview of the key ESG issues identified through the information and engagement service providers, coupled with feedback from investment managers on specific ESG issues.
4. ACT Treasury should review the current proxy voting practice of its investment managers against the International Corporate Governance Network Statement on Institutional Responsibilities 2007. In particular in respect to proxy voting practices, ACT Treasury should seek to assess whether its investment managers have appropriate policies and procedures to manage conflicts of interest, whether they are appropriately resourced and skilled to exercise their voting responsibilities in matters subject to deliberation and whether they have appropriate arrangements for reporting to beneficiaries on the way in which voting policy has been implemented and on any relevant engagement with companies concerned. In the event that ACT Treasury assesses that its investment managers do have these policies, skills and reporting practices in place then it is considered that continuing with the existing arrangement of requiring investment managers to exercise proxy voting responsibilities as opposed to engaging a proxy voting service would be appropriate.
5. ACT Treasury should focus its responsible investment program on areas where its integration and engagement programs are likely to have the most impact. Over time, it is

expected that there will be developments across a range of asset classes in terms of responsible investment implementation practices. ACT Treasury should monitor these developments by participating in the programs provided by the PRI community. ACT Treasury should conduct a regular review of its implementation program to identify opportunities to build integration and engagement programs in respect of its property, fixed interest and private equity investments.

6. It is recommended that ACT Treasury's ESG Investment Policy be reviewed on a regular basis to ensure that it remains consistent with best practice and actual implementation practice.
7. ACT Treasury's Investment Advisory Board (IAB), which advises Treasury in relation to financial returns and management of risks associated with ACT Treasury's investments, should also provide advice in respect of responsible investment. Over time, without necessarily having to expand the current number of IAB members, ACT Treasury should seek to identify a skilled finance professional that has an understanding of responsible investment to be a part of the IAB.

Section 1: Background

Terms of Reference

Responsible Investment Consulting Pty Ltd has been asked to report according to the following Terms of Reference:

To undertake an independent review of the Government's current investment practices to determine how the UN Principles for Responsible Investment are being addressed and to provide recommendations relating to whether the Government's practices are appropriate and sufficient.

The review will provide an assessment of how the Government, represented by ACT Treasury, has implemented its stated Environmental, Social and Governance (ESG) policy and whether (in the reviewer's opinion) the Government is meeting its responsibilities/requirements of the Principles for Responsible Investment.

The review is to take into account the following:

- a) the 'Review of the Application of Environmental, Social and Governance Principles to Territory Investment Practices' completed by the Independent, Non-Executive Members of the ACT Treasury Finance and Investment Advisory Board on 29 June 2007
- b) the Government's ESG investment policy developed following consideration of the recommendations of the 'Review of the Application of Environmental, Social and Governance Principles to Territory Investment Practices';
- c) the intent and objectives of the Principles for Responsible Investment;
- d) the requirements of signatories to the Principles for Responsible Investment;
- e) the degree of implementation of other signatories to the Principles for Responsible Investment; and
- f) the evolving and developing nature of the Principles for Responsible Investment.

About the Report's Author

Established in January 2007, Responsible Investment Consulting Pty Ltd is an independent consulting business that is owned and operated by Director Gordon Noble.

Responsible Investment Consulting's business purpose is to assist investment institutions to implement and communicate responsible investment practices through education and training, project management, communications and research.

Responsible Investment Consulting became a signatory to the United Nations Principles for Responsible Investment in the service provider category on 3 January 2008.

Documents Considered as Part of Report

The following documents were considered as part of this report. In addition, interviews were conducted with Treasury officials on 5th January 2010 and 8th February 2010.

1. Australian Capital Territory, ACT Chief Minister and Treasurer Jon Stanhope Press Release 250/08, *ACT Governments becomes signatory to United Nations Principles for Responsible Investment*, 1 July 2008
2. Australian Capital Territory , Department of Treasury, Investment Manager Environmental, Social and Governance (ESG) Questionnaire provided by ACT Treasury officials, January 2010
3. Australian Capital Territory , Department of Treasury Minute, Principles for Responsible Investment (PRI) – September Quarter Reporting , provided by ACT Treasury officials, January 2010
4. Australian Capital Territory, Department of Treasury 2008-09 Annual Report Volume 1, Superannuation Provision Account
5. Australian Capital Territory, ESG Risk Stock Selection – Policy Criteria, from CAER computer screen printout
6. Australian Capital Territory, Example of Investment Management Agreement between Australian Capital Territory and an investment manager provided by ACT Treasury officials, January 2010
7. Australian Capital Territory, Example of Deed of Variation of Investment Management Agreement provided by ACT Treasury officials, January 2010
8. Australian Capital Territory, Finance and Investment Advisory Board, *Review of the Application of Environmental, Social and Governance Principles to Territory Investment Practices*, 29 June 2007
9. Australian Capital Territory, *Financial Management Act 1996*
10. Australian Capital Territory, *Financial Management (Investment and Borrowing) Guidelines 2005*
11. Australian Capital Territory, Investment Branch Policy Manual, Chapter 5, Part i) - SPA Investment Policy
12. Australian Capital Territory, Investment Branch Policy Manual, Chapter 5, Part ii) - SPA ESG Investment Policy
13. Australian Capital Territory , Media Pack including Press Release of Chief Minister 239/08 and various media clippings

14. Australian Capital Territory , Purpose, Role, Composition, Progress and Responsibility Framework of the Investment Advisory Board provided by ACT Treasury officials, January 2010
15. Australian Capital Territory, Regnan, Engagement process proposal – a two pronged approach, 30 September 2008
16. Australian Capital Territory, Summary of responses to the PRI reporting and assessment tool 2009
17. Australian Capital Territory, *Superannuation Management Guidelines 2002*, Disallowable instrument DI 2002—155
18. Australian Capital Territory, *Territory Superannuation Provision Protection Act 2000*
19. Australian Capital Territory, 2009-10 Budget Paper No 3. 5.1 Investments
20. Australian Capital Territory, 2009-10 Budget Paper No 3. 5.3 Superannuation
21. Australian Council of Superannuation Investors, ACSI Governance Guidelines, October 2009, *A guide for superannuation trustees on the consideration of environmental, social & corporate governance risks in listed companies*
22. Australian Council of Superannuation Investors, Media Release 17 December 2009, Australian super funds perform well against world's asset owners
23. International Corporate Governance Network, Statement of Principles on Institutional Shareholder Responsibilities (2007)
24. Principles for Responsible Investment *Annual Report of the PRI Initiative 2009*
25. Principles for Responsible Investment, *PRI Report on Progress 2009; a review of signatories progress and guidance on implementation, 2009*
26. Principles for Responsible Investment, *PRI Report on Progress 2008*
27. Principles for Responsible Investment, *PRI Report on Progress 2007, Implementation, Assistance, Guidance*
28. Principles for Responsible Investment, *PRI Reporting and Assessment tool User Manual and Offline Answer Form 2009*
29. Principles for Responsible Investment, *Reporting and Assessment Tool Complete Signatory Results 2009*
30. Principles for Responsible Investment, *Reporting and Assessment Tool Complete Signatory Results, 2008*
31. Principles for Responsible Investment, *Reporting and Assessment User Manual, 2010*

32. Principles for Responsible Investment, *Reporting and Assessment Tool, Individual Results*, August 2009
33. Responsible Investor Magazine, *Future of ESG Integration- Special Report*, November 2009
34. Rory Sullivan and Craig Mackenzie, *Responsible Investment*, Greenleaf Publishing Ltd, 2006
35. United Nations Environment Program, *Fiduciary Responsibility: Legal and Practical Aspects of Integrating Environmental, Social and Governance Issues into Institutional Investment*, 2009
36. United Nations Environment Program Finance Initiative, Asset Management Working Group, *'Demystifying Responsible Investment Performance, a review of key academic and broker research on ESG factors'*, Asset Management Working Group, October 2007
37. UNEP FI Asset Management Working Group / Freshfields Bruckhaus Deringer, *A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment* (2005): Geneva.

Section 2: Responsible Investment Overview

Defining Responsible Investment

Responsible Investment is a term that has emerged over the last five years to describe a process where an investor incorporates environmental, social and governance (ESG) factors into their investment decision making. The term is considered to be an umbrella term, with varying interpretations as to the actual methodologies that may be adopted to factor ESG issues into investment decision making processes.

The development of responsible investment as a distinct investment methodology developed out of the writings of a number of influential authors.

James P Hawley & Andrew T Williams developed the concept of the 'universal owner' in their book, *The Rise of Fiduciary Capitalism* that was released in 2000. According to the authors, a universal owner which is a large institutional investor in effect owns a slice of the economy, and therefore has an interest in ensuring that companies act in way that is in the long-term interest of the health and well-being of the whole of society.

Stephen Davis, Jon Lukomnik, and David Pitt-Watson in their 2006 book *The New Capitalists*, argued that when investors don't act like owners, corporations are free to behave as if they are unaccountable. The result can be an abuse of power, with Enron, World Com, Tyco, HIH and One.Tel providing examples of the impact that this can have on investors and society.

In 2006 Rory Sullivan and Craig Mackenzie published a key text that brought together a number of common concepts into a cogent stream of thinking. The book, *Responsible Investment*, considered the difference between responsible investment and ethical investment. Sullivan and Mackenzie stated in their opening chapter:

"For a number of years, it has been assumed that the only ethical approaches available to investors were either to shun certain stocks or to invest in certain positive activities. While such approaches have the advantage of appealing to relatively simple conceptions of right and wrong, they have struggled to become more than a relatively small part of the total investment market. The reasons for this are varied but include the relatively small portion of the population that feels sufficiently strongly about such issues to make a positive choice on how its money is invested, and the perception that such investments carry a higher risk than conventional investments. From the perspective of encouraging companies to improve their performance on social, ethical and environmental issues, a blanket refusal to invest in a specific company also means that such investors have limited ability to encourage higher standards of corporate responsibility." (p15)

Sullivan and Mackenzie argued that investment does cause environmental and social impacts and that "there is a growing belief that investors, in particular large institutional investors, have a responsibility to work proactively to address the environmental and social impacts of their investments." (p13) They went on to state that "the rationale for these demands is that active shareholder participation can play a major role in encouraging high-quality corporate governance

that will deliver long-term shareholder returns, while also offering the potential to deliver broad societal benefits.” (P13)

Principles for Responsible Investment

The term ‘responsible investment’ was consolidated into the lexicon of institutional investors in April 2006 when a number of these investors collaborated with the United Nations Environment Program Finance Initiative and the United Nations Global Compact to establish the Principles for Responsible Investment (PRI).

The PRI, with the backing of the United Nations Secretary-General Kofi Annan, were launched in April 2006 at the New York Stock Exchange.

The Principles state that institutional investors have a “duty to act in the best long-term interests of our beneficiaries and that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios.”

The PRI do not provide a universal definition of responsible investment but are an aspirational and voluntary set of principles that can be used as a framework to guide an organisation’s own activities. The goal of the Principles is to enable individual institutions to determine how to implement the PRI framework and not provide prescriptive directions.

While the term responsible investment is considered to be an umbrella term, its use has become synonymous with the Principles for Responsible Investment.

The statement of signatories to the Principles for Responsible Investment is as follows:

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1 We will incorporate ESG issues into investment analysis and decision-making processes.

2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4 We will promote acceptance and implementation of the Principles within the investment industry.

5 We will work together to enhance our effectiveness in implementing the Principles.

6 We will each report on our activities and progress towards implementing the Principles.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

In summary whilst a universal definition of the term responsible investment does not exist, it is synonymous with an approach to investment that combines incorporation of ESG issues into investment processes coupled with active engagement.

Responsible Investment and Investment Portfolio Performance

There has been a significant and ongoing debate, about the capacity for responsible investment to lead to improved investor returns over time.

In 2007, the United Nations Environment Program Finance Initiative produced the report ‘Demystifying Responsible Investment Performance’ⁱ, stating:

It is insightful to start by looking at the evolution of responsible investment. The first generation used negative screening by excluding sectors based on ‘ethical’ criteria. This was followed by the positive screening or ‘best-in-class’ approach, which selects top performers within a permitted sector. Today, responsible investment is premised on the belief that ESG factors can enhance financial performance and should therefore be integrated into investment analysis and decision-making, including ownership practices.

Naturally, performance speaks loudest for most investors. A constant barrier to the widespread acceptance of responsible investment has been the misconception that it automatically translates to underperformance. The common school of thought is that a limited investment universe, as a result of a screening approach, entails a performance penalty. This has been the subject of much debate through the years, particularly in the context of fiduciary duty. Unfortunately, responsible investment appears to have borne the stigma of its largely exclusionary past.

Therefore, it is important to recognise that the new philosophy of responsible investment is proactive. It systematically integrates ESG factors into the investment process to enhance financial performance; and in doing so, identifies companies better positioned to benefit from investment performance over the long-term, and enhances the incentives for companies to align with the goals of sustainable development.

The UNEP FI report reviewed twenty academic studies on the performance of responsible investment portfolios: ten showed evidence of a positive relationship between ESG factors and portfolio performance, seven reported a neutral effect and three a negative association:

While the results vary depending on the factor being studied, the region and the sample period, the evidence suggests that there does not appear to be a performance penalty from taking ESG factors into account in the portfolio management process.

Whereas the UNEP FI report concluded that there was no penalty from taking ESG factors into account, for mainstream investors it is difficult to specifically attribute the component of performance that may be directly related to incorporating ESG factors in investment processes. ESG attribution is difficult for a number of practical reasons:

- It is difficult to quantify the impact on future investment returns of engagement with a company that results in a change of corporate behaviour that has the result of removing, or mitigating a long term ESG risk.
- Companies that integrate ESG issues into their business are also seen to be better managers. It is difficult to split management performance from ESG performance as these are considered to be dependent on each other.
- There is a mismatch between time periods of measurement, with ESG factors considered to impact on a company and society over the longer term, whereas investment performance is measured over the short term.
- There is no definitive answer to the materiality of specific ESG metrics. Company disclosure of sustainability information is still incomplete which impacts on the ability of researchers to analyse how particular factors influence performance.

Fiduciary Duty

A key global debate in responsible investment has been whether institutional investors who act in a fiduciary capacity are legally able to consider ESG issues in their investment decision making.

In 2005 the United Nations Environment Program Finance Initiative (UNEP FI) sought to address the uncertainty around this issue by commissioning a report. The report, *A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment*, also known as the 'Freshfields Report' concluded:

“integrating ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions.”ⁱⁱ

In 2009, UNEP FI commissioned a follow up to the report. Entitled *Fiduciary Responsibility: Legal and Practical Aspects of Integrating Environmental, Social and Governance Issues into Institutional Investment*, the report explored the complex relationship between fiduciary law and ESG issues in investment policymaking and practice, with a practical focus on how investors can incorporate ESG issues into service contracts.

Paul Q. Watchman, an internationally-recognised fiduciary law expert and the principal author of the original Freshfields Report, stated in the 2009 follow-up report that:

“It is necessary for investment management agreements or the equivalent contract between pension funds and asset managers to use ESG language in order to clarify the expectations of the parties to the contract. In particular, it is important that it is made absolutely clear to beneficiaries, pension fund trustees and asset managers that ESG is regarded as a mainstream investment consideration. In tendering for investment mandates, it would be

expected that the investment consultant or asset manager would raise ESG considerations as an issue to be taken into account and discussed with the client even if the pension fund had not specified ESG considerations as material to the tender. If the investment consultant or asset manager fails to do so, there is a very real risk that they will be sued for negligence on the ground that they failed to discharge their professional duty of care to the client by failing to raise and take into account ESG considerations.

As professional investment advisers, investment consultants and asset managers are under a contract for services rather than a contract of service. They are professional advisers to the client, not employees of the client; hence in exercising significant professional discretion...investment consultants and asset managers must be proactive rather than reactive.”

In summary, a number of reports have confirmed that investors are able to consider ESG issues in their investment decision making processes. The integration of ESG issues into service contracts by investors is considered to be permissible, and necessary to ensure that service providers are legally obliged to factor ESG issues into their service.

Overview of Principles for Responsible Investment

Within two weeks of their launch in 2006, 60 institutions had endorsed the PRI. This increased to 190 signatories in 2007, 362 signatories in 2008 and by 2009 a total of 538 signatories with combined assets of \$US18,087 trillion had endorsed the Principles. At the time of compiling this report in January 2010 there were 681 signatories that had endorsed the PRI on a global basis.

The PRI is governed by an elected Board of 11 representatives from asset owner signatory organisations and two representatives from the United Nations. The PRI’s governing rules provide that only asset owners are eligible to participate in a ballot to elect the PRI Board.

Australia represents almost one in seven of all signatories to the PRI. Table 1 provides information on Australian PRI signatories as at January 2010.

Table 1: Breakdown of Australian PRI Signatories, January 2010

Type of Signatory	Number of signatories
Asset owners	29
Investment managers	50
Professional service partners	16
Total	95

Table 2 provides a breakdown of the contribution of particular countries to the PRI signatory body.

Table 2: Breakdown of PRI Signatories on Country Basis, January 2010

Country	Total Number of PRI signatories
Australia	95
Brazil	36
France	43
Germany	9
Japan	13
Netherlands	40
UK	82
USA	102

Table 3 provides a list of Australian Asset Owner signatories to the PRI. While the Australian asset owner signatory body consists of funds with a range of asset sizes, the Australian Capital Territory is one of the smaller funds.

Table 3: Australian Asset Owner signatories to the PRI

ARIA	Australian Capital Territory
AustralianSuper	CARE Super
Catholic Superannuation and Retirement Fund	Catholic Superannuation Fund
CBUS Superannuation Fund	Christian Super
CommInsure	Energy Industries Superannuation Scheme (EISS)
ESSSuper	First State Superannuation Scheme
Goldman Sachs JBWere Superannuation Fund	Health Super
HESTA Super Fund	HOSTPLUS
IAG & NRMA Superannuation Pty Limited	Insurance Australia Group (IAG)
Local Government Superannuation Scheme	Local Super
LUCRF Super	NGS Super
State Wide Superannuation Trust	Tasplan
Telstra Super Pty Ltd	TWUSUPER
UniSuper Management Pty Limited	VicSuper
Victorian Funds Management Corporation	Vision Super

PRI Programs

The PRI Secretariat has developed a variety of tools to support signatories in their efforts to implement the Principles. Key mechanisms through which the PRI provide support to signatories include:

PRI Annual Conference

The PRI conducts an annual conference to bring together PRI signatories. The conference provides signatories with the ability to hear how fellow signatories are progressing in their implementation efforts. An Annual General Meeting of signatories provides an opportunity for signatories to contribute to the future development of the PRI.

The 2009 PRI Annual Conference was held in Sydney. This followed previous conferences in Seoul, South Korea and Geneva, Switzerland. The 2010 PRI Annual Conference is scheduled to be held in San Francisco, USA in October 2010.

PRI in Practice Knowledge Base

The PRI in Practice™ implementation blog provides signatories with a range of materials to assist in implementation of the PRI. Signatories can find information to broaden their understanding of responsible investment issues, and the approaches taken by leading signatories.

Accessible through a password-protected intranet, PRI signatories are able to access a range of information resources including interviews with key industry practitioners, book reviews, issues briefs and listings of other investor collaborative initiatives. The PRI secretariat runs a regular series of webinars on key issues which can then be played back by signatories.

PRI Engagement Clearinghouse

The PRI Engagement Clearinghouse, established in late 2006, provides signatories with a forum to share information about engagement activities they are conducting, or would like to conduct. The primary objective of the Engagement Clearinghouse is to provide signatories with a collaborative forum that can transform one voice into the voice of many.

The PRI Engagement Clearinghouse is based around a private online forum for signatories to pool their resources and influence, and seek changes in company behaviour, policy or systematic conditions. To use the PRI Engagement Clearinghouse, signatories develop a proposal for the engagement they would like to undertake, with details for how it would be conducted, expected outcomes, background information and any associated documents. Other signatories can see which activities are being proposed, and then choose to participate, or simply use the Clearinghouse as a learning platform.

Reporting and Assessment Tool

Although the PRI is voluntary and aspirational, with no absolute performance benchmarks, PRI signatories are required to complete an annual survey. The survey provides a way for signatories to measure their own progress against their peers and learn from each other. The framework

methodology acknowledges the different approaches taken by signatories and assists the identification of barriers to implementation, which in turn helps determine priorities for training and other support activities. It also enables the PRI to identify and showcase best practices from within the signatory body, which can then be reflected back through implementation resources.

The PRI's Report on Progress 2009 provided an overview of signatories' performance with the following key conclusions made by the PRI Secretariat:

- Signatories who joined the PRI in the early period following its inception achieved higher self-assessment scores than those who signed more recently.
- Overall, signatories scored highest on Principle 1(integration), 2 (active ownership) and 5 (working together).
- Scores recorded by signatories from the Asia Pacific and emerging markets were lower than those recorded by signatories from Europe and North America.

In respect of the performance of Australian PRI signatories, the PRI's Report on Progress 2009 stated:

In Australia/New Zealand the bottom quartile score for each Principle and for Governance Policy and Strategy (GPS) was lower than the bottom quartile in any other developed country. This suggests that a significant proportion of signatories from the region have not yet developed their implementation of the Principles to the level observed on average amongst the smaller number of signatories from other regions. Median and upper quartile scores were generally competitive with those seen in other regions however. Scores of IMs from Australia/New Zealand generally spanned quite a wide range. The strongest area for investment managers from the region was governance policy and strategy, where even the bottom quartile result was very high.

PRI Work Streams

The PRI Secretariat has developed a series of work streams to provide signatories with the ability to build knowledge and to network in areas of particular interest. Current work streams are:

- PRI in Emerging Markets and Developing Countries
- PRI in Private Equity
- PRI in Property.

The PRI work streams provide signatories with the ability to contribute to the PRI's body of knowledge in a range of areas, whilst also providing a platform for networking and knowledge sharing.

PRI Enhanced Research Portal

The PRI is proposing to establish an online platform to aggregate research that integrates ESG factors, allowing research providers to showcase their analysis and allowing the combined

signatories greater, and easier, access to these outputs. The PRI Enhanced Research Portal will replace the work of the Enhanced Analytics Initiative.

The purpose of the PRI Enhanced Research Portal is to provide a snap-shot and up-to-date catalogue identifying what ESG research exists.

PRI Academic Network

As part of broader efforts to increase knowledge about responsible investment practices, the PRI Academic Network works to strengthen cooperation between signatories and the academic community.

With a membership of over 300 academics, investment practitioners and policy makers, the PRI Academic Network represents a diverse array of research interests from around the world. The network aims to provide implementation support to PRI signatories through promoting and funding research and events that generate practical and relevant responsible investment research. The network hosts an annual conference and co-manages the Young Scholars Finance Academy in partnership with the Swiss-based oikos Foundation. It also produces the monthly 'RI Digest', an e-bulletin that reviews the latest academic research on responsible investment.

Section 3: Background to ACT Government Endorsement of PRI

ACT Government Endorsement of PRI

The ACT Government endorsed the Principles for Responsible Investment on 1 July 2008.

Endorsing the Principles, ACT Chief Minister and Treasurer Jon Stanhope stated:

“By taking the extra step of signing the Principles, the ACT Government is publicly committing to adopting and implementing them, consistent with its fiduciary responsibilities. The ACT Government also commits to evaluate the effectiveness and improve the content of the Principles over time and believes that this will improve the ability of the ACT to meet its financial commitments as well as better aligning the investment activities with the broader interest of society.”

A press release issued on behalf of the Chief Minister stated:

The significant changes to be implemented from the current approach to the ACT investment practices and operations managed by ACT Treasury will involve:

- the receipt of specific research on ESG risks and issues in respect of the ACT’s equity investments, including company specific exposures to identified ESG risks and issues;*
- direct engagement with appointed fund managers to promote the incorporation of identified ESG risks and issues into company valuations and assessment; and*
- with a collective group of like-minded share holders, implement direct engagement arrangements with companies about identified ESG risks and issues through a specialist direct engagement services provider.ⁱⁱⁱ*

ACT Government Responsible Investment Review

Prior to endorsing the PRI, the ACT Chief Minister’s Department requested that the Australian Capital Territory Government’s Finance and Investment Advisory Board (FIAB) produce a report examining responsible investment. The report, *Review of the Application of Environmental, Social and Governance Principles to Territory Investment Practices* was delivered on 29 June 2007.

In the context of this report it is important to briefly review the key findings of the FIAB report.

The report provided a recommendation that the ACT Government adopt an approach to ESG issues based on risk, rather than values. The report stated:

... the Board’s belief (is) that the use of values-based screening for the Territory’s investments is not consistent with the overriding obligations of the prudent fiscal management of risks. Other key factors that have been taken into consideration include:

- Screening does not necessarily influence or change corporate behaviour;*

- *The establishment of ‘values’ criteria by the ACT Government is especially problematic in that many of the activities that may be considered socially undesirable are legally permitted activities and in some cases are engaged in by responsible governments;*
- *Screening reduces the size of the investable universe, potentially resulting in a higher volatility in returns relative to the benchmark return and, particularly in the case of negative screening, a less diversified portfolio;*
- *A risk-based approach is holistic and broader in its reach than screening, recognising that institutional investors are universal long-term holders of broadly diversified portfolios consistent with the prudent management and diversification of risk; and*
- *The implementation of a risk-based approach through the engagement process is directly targeted at changing corporate behaviour as a means to achieving improved ESG outcomes.^{iv}*

Further, the report noted that *“the approach to ESG issues in institutional investing is evolving and implementation remains a challenge. Therefore it is important that the ACT Government takes a considered and measured approach to the application of ESG issues to the Territory’s investment practices.”*

The recommendations contained in the report were as follows:

1. *The ACT Government adopts a risk-based approach to the application of ESG issues to the Territory’s investment practices.*
2. *The ACT Government adopts the principles for responsible investing, as set out in the UN PRI.*
3. *ACT Treasury monitors the extent to which the Territory’s fund managers and asset consultants are taking into account ESG issues in investment decision-making processes.*
4. *The ACT Government considers the appointment of a third party engagement service provider to assist in the implementation of a risk-based approach to ESG issues for the Territory’s investments.*
5. *ACT Treasury requires the Territory’s fund managers to provide their voting policies, requests that they exercise their voting rights and report on their voting activities.*
6. *The ACT Government considers the engagement of a third party proxy voting service provider.^v*

On 18 October 2007, the ACT Chief Minister and Treasurer Jon Stanhope announced that the ACT Government had agreed with all of the recommendations of the report.^{vi}

ACT Government Investments

The investments of the Australian Capital Territory managed by ACT Treasury consist of the Superannuation Provision Account investment portfolio and the Territory Banking Account investment portfolio.

In an interview with ACT Treasury officials, it was advised that investments established under specific legislations, such as ACTEW Corporation, are not captured under ACT Treasury investments.

ACT Treasury does manage investments on behalf of some Territory Authorities. These investments are managed through the Territory Banking Account with the underlying investments going into investment pools with daily unit pricing. This report will consider how the ACT Government has specifically implemented its commitments to the PRI in relation to its two underlying investment vehicles, the Superannuation Provision Account and the Territory Banking Account.

The Superannuation Provision Account and the Territory Banking Account are established to meet specific purposes. As a result the two investment vehicles have different investment objectives which are summarised as follows:

Territory Banking Account

The Territory Banking Account ('TBA') has been established to manage the cash of the general government that is not required for immediate expenditure. The TBA is invested in assets in accordance with the risk deemed appropriate for these funds and within projected cash flow requirements.

Superannuation Provision Account

The Superannuation Provision Account ('SPA') has been established to assist the Government in meeting its long-term defined benefit employer superannuation obligations. These funds are invested in accordance with an established asset allocation strategy that takes into account the long-term nature of the SPA projected defined benefit employer superannuation liabilities and projected cash flow requirements.

Table 4: ACT Treasury Investment Portfolio Summary

Superannuation Provision Account 31 December 2009

	Beneficial Ownership ¹ \$'000	Beneficial Interest ² \$'000	Total \$'000
Cash (enhanced)	0	304,544	304,544
Australian Fixed Interest	0	169,942	169,942
International Fixed Interest	0	174,963	174,963
Australian Equities	331,241	154,370	485,611
International Equities	239,951	454,904	694,855
Australian Private Equity	0	121,263	121,263
Australian Property	0	113,322	113,322
	571,192	1,493,308	2,064,500

Territory Banking Account

	Beneficial Ownership ¹ \$'000	Beneficial Interest ² \$'000	Total \$'000
Cash (enhanced)	1,328,719	0	1,328,719
Australian Fixed Interest	0	225,124	225,124
	1,328,719	225,124	1,553,843

Notes:

1 Beneficial Ownership means the Territory has a percentage of ownership in each of the underlying assets of the portfolio. The Territory, for example, has proxy voting rights for listed equity holdings.

2 Beneficial Interest means the Territory has no direct ownership of the actual underlying assets but rather an ownership of units that provides the Territory with a beneficial interest in the underlying assets. The Territory has no ability to vote (where applicable), and limited ability to influence actions on the assets outside the scope of the binding trust deeds.

Governance

Australian Capital Territory investments are governed under the *Financial Management Act 1996* and the *Territory Superannuation Provision Protection Act 2000*.

Both of these Acts establish that Financial Management Guidelines may be made.

The relevant guidelines made in relation to Australian Capital Territory Investments are the *Financial Management (Investment and Borrowing) Guidelines 2005* Disallowable instrument DI2005–270 and the *Superannuation Management Guidelines 2002*, Disallowable instrument DI 2002—155.

For the purposes of this report these will be referred to as ‘the Financial Guidelines’.

The Financial Guidelines provide ACT Treasury with a set of rules as to its investments. A number of these guidelines are of particular relevance. These are summarised as follows:

- ACT Treasury may utilise the services of specialist external fund managers to manage Territory investments. Fund managers cannot be engaged without a formal written agreement (contract) being established.
- The Financial Guidelines prescribe the list of allowable asset classes into which Territory funds may be invested. The list includes cash and cash equivalents, derivatives, Australian shares, Australian property and pooled investment funds.
- Establishes that the investment plan sets out the bases upon which the investment objectives can be achieved through the adoption of processes that recognise long-term risk and return characteristics of a portfolio of combined asset classes.
- The Financial Guidelines prescribe the minimum credit rating requirements that debt instrument investments must meet if they are to form part of a Territory investment portfolio.
- The Financial Guidelines prescribe the uses and limitations of financial derivatives, particularly that the Territory must not use derivatives for speculation, gearing or leveraging an investment portfolio.

The Financial Guidelines provide ACT Treasury officials with a clear context as to how investments can be managed. The Guidelines impact on the kinds of investments that can be made, and the overall management of those investments. This is relevant in terms of ACT Treasury's implementation of the PRI, which will be discussed further in this report.

Section 4: ACT Treasury Implementation of PRI

ACT Treasury's implementation of the PRI is reviewed according to the seven core areas of the PRI:

- Governance, Policy and Strategy
- Principle 1 – ESG Integration
- Principle 2 – Active Ownership
- Principle 3 – ESG Disclosure
- Principle 4 – Promotion
- Principle 5 – Collaboration
- Principle 6 – Reporting

Governance, Policy and Strategy

ACT Treasury has implemented a range of governance and policy initiatives as part of its implementation of the Principles for Responsible Investment.

Responsible Investment Policy

The establishment of a formal responsible investment policy is recognised by the PRI as a foundation step to implement the PRI. ACT Treasury has developed an ESG Policy for the Superannuation Provision Account, which is to be viewed in the context of ACT Treasury's existing investment policy for the SPA. This should in turn be considered in terms of the Financial Guidelines established through the *Territory Superannuation Provision Protection Act 2000*.

In terms of defining what is an appropriate and sufficient responsible investment policy, there are a number of sources of guidance.

The PRI does not provide specific guidance as to what should be included in a responsible investment policy. However, the Australian Council of Superannuation Investors ('ACSI') does provide guidance to its membership on establishing a responsible investment policy.^{vii}

According to ACSI, a responsible investment policy should include:

- The trustees' investment approach and the key ESG considerations in the fund's investments
- Who is accountable and responsible for managing ESG issues within the fund and in its investments
- The trustees' views on the governance of companies and companies' responsibilities to manage social and environmental risks
- What the trustees define as "active ownership"

- Engagement policies, including whether the fund will engage directly with companies or outsource engagement
- What the fund expects from its fund managers in this area, including whether the fund will expect its fund managers to engage with companies specifically on ESG issues
- Proxy voting policies
- How the trustees will monitor voting in pooled investments
- If the fund has more than one fund manager, how the trustees will ensure that different fund managers may undertake activities (including exercising their voting rights) in the same way and not in conflict with each other
- The fund's internal governance policy and practices

A second source of guidance is to review the actual responsible investment policies of asset owners. Reviewing a number of existing responsible investment policies from a range of institutional investors in Australia and internationally it is considered that a best practice responsible investment policy should include the following elements:

1. A statement that ESG issues impact on investment
2. A statement defining responsible investment from the perspective of the asset owner
3. A statement as to the approach that the asset owner will adopt
4. A statement on how the asset owner will manage its investment managers
5. A statement on how the asset owner will measure its achievements

On the question of whether ACT Treasury's ESG Policy is appropriate and sufficient, the policy is reviewed in respect of the above five criteria.

A statement that ESG issues impact on investment

The ACT Treasury ESG Policy for the Superannuation Provision Account states:

As an asset owner, and acknowledging Treasury's fiduciary responsibilities, it is accepted that both financial and non-financial risks (specifically, environmental, social and corporate governance (ESG) issues) can impact on long-term investment value and performance.

Treasury believes that companies that best manage ESG risks, impacts, and opportunities, should be more financially sustainable in the long term and should deliver better long-term performance.

ACT Treasury's ESG policy provides an acceptable statement that acknowledges that ESG issues can impact on investment.

A statement defining responsible investment

Section 4 of the ACT Treasury ESG Policy provides a detailed explanation of the ACT Treasury's view of a risk-based approach to ESG issues. The policy, in part, states:

A risk-based approach to ESG broadly refers to shareholder engagement of the management of a company in the form of a constructive dialogue whereby key ESG exposures are raised and considered in an active manner. Engagement is consistent with an investment framework within which the shareholder acts like an owner, monitoring the company closely, and engaging in dialogue with the company on key issues where necessary.

Risk-based engagement is intended to assist in meeting the needs of the institutional investment market to consider ESG issues within the discretionary limits imposed by fiduciary duties, the prudent person rule or equivalents thereof.

In Section 6 of the ACT Treasury ESG Policy, ACT Treasury provides a definition of active ownership:

Treasury defines active ownership as fully exercising voting rights, engaging with companies, and being aware of and monitoring key ESG issues and risks of investment manager stock selection and portfolio construction.

ACT Treasury has provided definitions of responsible investment that are appropriate and sufficient.

A statement as to the approach that the asset owner will adopt

Section 4 of the ACT Treasury ESG Policy provides further information on the approach that ACT Treasury will adopt to implement its view of responsible investment.

This includes a statement outlining ACT Treasury's view that direct engagement with a company allows a wider range of issues to be the subject of engagement, and means many shortcomings can be identified and addressed long before they manifest themselves as problems for the company through litigation, regulation, or even brand or reputation damage affecting its custom.

Section 6 of the ESG policy provides a detailed explanation of the measures that ACT Treasury is adopting to implement each individual principle.

ACT Treasury has provided a detailed statement describing the approaches that it will adopt to implement the PRI.

A statement on how the asset owner will manage its investment managers

ACT Treasury provides a statement in Section 6 (Principle 1) of the ACT Treasury ESG Policy that:

Treasury's investment managers are required on an annual basis to respond to an ESG questionnaire in relation to developments in their application and incorporation of ESG considerations into their investment decision-making processes.

Treasury's investment managers are continually encouraged to integrate a more comprehensive ESG analysis framework into their investment decision-making processes.

Treasury's asset consultant is continually encouraged to better integrate ESG factors into evolving research and advice.^{viii}

ACT Treasury provides a statement in Section 6 (Principle 2) of the ACT Treasury ESG Policy:

Treasury monitors the exercising of voting rights by the investment managers and monitors compliance with proxy voting policies.

Treasury delegates authority to its external investment managers to exercise the Territory's voting rights in respect of directly held shares.

The investment managers are considered to be in the best position to vote in the long-term financial interests of the Territory.

ACT Treasury's statement on how it will manage its investment managers provides a sufficient level of detail.

ACT Treasury makes two statements to 'continually encourage.' It is considered that in a future review of the ACT Treasury ESG policy that these statements be clarified as they have already been superseded by ACT Treasury's actual implementation program.

A future review of the policy should also include reference to the amending of Investment Management Agreements to incorporate ESG issues. It is particularly important to ensure that the ACT Treasury ESG Policy reflects the amended IMAs given the statements in Freshfields Mark 2 (the follow-up report) about the potential legal implications for investment managers and asset consultants of incorporating ESG into IMAs.

A statement on how the asset owner will measure its achievements

One of the most difficult areas for PRI signatories is to develop measures to assess the impacts of an asset owner's approach to responsible investment. This is an area which is expected to evolve over time.

Section 2 of ACT Treasury's ESG Policy recognises that the impact of the PRI will be ongoing and evolving and Treasury will continue to progress.

Given the evolving nature of responsible investment, and its relative infancy, ACT Treasury's statement that recognises that the impact of the PRI will be ongoing and evolving is an appropriate statement to be made in the ACT Treasury ESG Policy.

Overall it is considered that light of the above criteria that ACT Treasury's ESG Policy has all the elements for an appropriate and sufficient responsible investment policy.

PRI Reporting and Assessment Survey

The PRI requires that signatories complete an annual survey through the PRI's Reporting and Assessment Tool.

ACT Treasury completed the Reporting and Assessment Survey in 2009. A copy of ACT Treasury's answers to the questionnaire is publicly available on the PRI website.

PRI does not provide an overall benchmark of performance, instead benchmarking performance against specific principles, which removes the need to weigh or value the Principles in relation to each other.

A process has been developed to benchmark signatories against their peers. Due to the diversity in the signatory base and the different approaches to responsible investment involved, not every question is applicable to every signatory.

The PRI notes that the Reporting and Assessment Survey is primarily designed as a learning and development tool. The PRI Reporting and Assessment Survey is itself continuing to evolve. This reflects the feedback from signatories on the appropriateness of particular questions to signatories, as well as the evolving nature of responsible investment practice.

ACT Treasury's performance benchmarks, as provided to ACT Treasury by the PRI, are detailed in the following table:

**Table 5: Australian Capital Territory PRI Reporting & Assessment Survey
Quartile Performance**

	GPS	P1	P2	P3	P4	P5	P6	Min No. Peers
Relative to ALL PRI Signatories	3	4	4	3	3	4	3	276
Relative to Asset Owners	3	3	3	2	3	4	2	123
Relative to Asset Owners in Asia-Pacific	2	3	3	2	3	4	2	33
Relative to Asset Owners that joined PRI in 2008	3	3	2	2	2	4	2	22
Relative to Asset Owners in Australia	2	3	3	2	3	4	2	25

Note: The PRI Reporting and Assessment Survey benchmarks performance according to quartiles where '1' represents the top 25% of the particular subset and '4' represents the bottom 25% of a particular subset.

It is considered that given that this was the first PRI survey that ACT Treasury has participated in, that the above results are satisfactory. Of note, ACT Treasury's performance in the Governance, Performance, Strategy category is strong. ACT Treasury is rated as being in the second quartile relative to asset owners in Asia-Pacific and in Australia. The GPS category is important in that it seeks to benchmark the overall governance framework that has been established to implement the Principles. It is considered that this is critical to implementing the Principles over the long term.

While the PRI Reporting and Assessment Survey can provide ACT Treasury with a useful tool to measure its own progress against its peers, ACT Treasury should develop its own processes to measure its progress over time.

ACT Treasury is complying with PRI requirements to complete an annual assessment process.

PRI Principle 1

We will incorporate ESG issues into investment analysis and decision-making processes.

ACT Treasury's current focus is to implement Principle 1 in respect to its equities portfolio.

The processes established by ACT Treasury can be summarised as:

1. Contracting with an out-sourced ESG research company to provide research on ASX 200 and FTSE All-World Index
2. Utilising the out-sourced ESG research to develop screens according to ESG factors
3. Communicating with investment managers on a regular basis in respect of companies that are identified as having a high level of ESG risk

ESG Integration Process

ACT Treasury established a tender process to select an ESG service provider to provide ACT Treasury with information on companies that its investment managers are holding in their portfolios and which are subject to particular ESG risks.

Corporate Analysis. Enhanced Responsibility (CAER) was selected to provide the ESG information service. CAER provides a tool that enables ACT Treasury to identify particular companies that are subject to ESG risks.

ACT Treasury is currently utilising CAER's service to screen investments according to three criteria: environmental, social and governance.

Environmental Screen: considerations include an assessment of a company's environmental impact, environmental policies and commitment, environmental management systems, environmental reporting, environmental performance and biodiversity policy. The environmental screen also identifies any involvement in the manufacture or supply of chemicals of concern, pollution convictions, and level of turnover from fossil fuels or from energy intensive industries. The screen also includes assessment of United Nation Convention Watch principles including biodiversity and damage to ecosystems, natural habitats and populations of species, and use or retail of threatened

species, the company's stance on the Kyoto Protocol, as well as the identification of the use of ozone depleting chemicals.

Social Screen: The social screen considerations include assessment of any known or perceived breaches of the United Nation Convention Watch principles in relation to human rights and international labour standards, an assessment of a company's human rights policies, systems and reporting, supply chain exposures, policies, systems and reporting, as well as exposure to indigenous rights issues, and employee issues of EEO and OH&S.

Corporate Governance Screen: The corporate governance screen considerations include assessment of the core elements of good governance, separation of the roles of Chairman and Chief Executive, bribery and corruption policies, systems and reporting, and the Code of Ethics. The screen also includes an assessment against the United Nation Convention Watch anti-bribery principles, the company's ESG risk management, as well as Board composition including the number of women on the Board.

Treasury undertakes engagement with fund managers on relevant ESG issues. Individual listed equity security holdings are screened on a quarterly basis to identify any securities with above-average ESG risks. Any company holdings that are highlighted through the screening process will be questioned directly with the relevant investment manager, with ACT Treasury asking the manager to clarify its views on the stock given the ESG information provided.

It is considered that developing an in-house ESG information capacity would not be an efficient use of ACT Treasury resources given the availability of outsourced providers that have specialised expertise and cost efficiencies in this area. The selection of CAER as a service provider affords ACT Treasury with the ability to gather ESG information in respect of Australian and international equities in a cost effective and efficient manner.

ACT Treasury officials have developed processes to utilise information provided through CAER's service to engage with their investment managers. This is considered to be a sufficient and appropriate strategy. Over time it is expected that the utilisation of the information service will evolve as ACT Treasury develops expertise and experience from its engagement with investment managers.

Investment Manager Dialogue

ACT Treasury's investment managers are asked to complete an Environmental, Social and Governance Questionnaire. The first survey was issued in 2008, with a subsequent survey issued in 2009. It is the intention of ACT Treasury officials to issue the survey on an annual basis.

The survey is broken down into four core sections:

- ESG: this section questions whether the investment manager has endorsed PRI, or is actively considering endorsing the PRI. Further questions seek to highlight whether the investment manager has developed processes to assess the ESG risks of companies as well as assessing the investment manager's internal capacity through training and utilisation of external research.

- Proxy voting: this section seeks to identify how the investment manager conducts its proxy voting.
- Interaction and Engagement with Companies: this section seeks to identify whether the investment manager has developed a structured engagement program with companies.
- Stakeholder Engagement: this section seeks to identify whether investment managers have participated in public debates, research initiatives and external forums in relation to incorporation of ESG into processes.

ACT Treasury has varied its standard investment manager agreements (IMA) to include the consideration of ESG issues by the investment manager. Specifically, variations to standard IMAs which were executed around November 2008 introduced amendments to require investment managers to report to ACT Treasury on the investment manager's ESG activities, including how the investment manager was integrating consideration of ESG risks into its analysis and investment decision making processes.

ACT Treasury's variation of investment management agreements to reflect ESG considerations is regarded as best practice. In particular, the advice contained in the Freshfields Report Mark 2 on the importance of incorporating ESG into IMAs in terms of fiduciary duty is of relevance.

It is considered that ACT Treasury's integration of ESG in its equities portfolio, by contracting with an ESG research specialist, engaging with investment managers and varying investment management agreements, is consistent with the current practice of other comparable asset owner signatories and is an appropriate and sufficient response.

PRI Principle 2

We will be active owners and incorporate ESG issues into our ownership policies and practices.

ACT Treasury's focus is to implement Principle 2 in respect of its ASX 200 equity portfolio. The process that has been adopted is as follows:

1. Contract with out-sourced engagement service provider to provide an engagement service in respect of ASX 200 companies
2. Participate in engagement program of out-sourced engagement service provider

Engagement Program

ACT Treasury made a strategic decision to outsource corporate engagement to a specialist engagement service provider. The rationale for this decision was a view that the maximum effect of engagement will be achieved by linking with other larger institutional investors. An established engagement service provider represented the most efficient, and cost effective mechanism to achieve this.

Following a tender process, **Regnan - Governance Research & Engagement Pty Limited** was selected to deliver an out-sourced direct company engagement service on behalf of ACT Treasury.

ACT Treasury advises that Regnan's engagement activity service is currently provided in respect of companies within the S&P/ASX200 index.

A process has been established between ACT Treasury and Regnan which consists of Regnan:

- Researching key ESG trends and risks facing investors
- Developing an engagement program which is agreed to by Regnan's clients
- Implementing an engagement program including meetings with companies
- Reporting back to clients on its engagement activities

ACT Treasury officials have investigated the merits of contracting with an international engagement service provider but have determined that at this stage there is a lack of service providers that provide a service suitable to its needs.

The utilisation of an outsourced engagement service provider is something that has been encouraged by the PRI in its small funds work stream, which encourages smaller investors to collaborate and establish shared initiatives in order to achieve efficiencies in the engagement process. It is generally recognised that for a small investor to conduct an engagement program that delivers a meaningful level of activity, some form of collaboration, and pooling of resources, is required.

It is considered that ACT Treasury's decision to contract with an outsourced engagement specialist to provide an engagement service in respect to Australian equities investments represents an appropriate strategy to adopt.

PRI Principle 3

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

ACT Treasury's focus to implement Principle 3 is to utilise the service of its out-sourced engagement service provider. One of the core areas of engagement provided by the out-sourced engagement service provider is to engage companies in respect of their ESG disclosure.

In addition ACT Treasury's annual ESG investment manager questionnaire specifically asks investment manager's to comment on whether the manager encourages companies to improve ESG disclosure.

ACT Treasury's approach to implementing Principle 3 is appropriate and sufficient.

PRI Principle 4

We will promote acceptance and implementation of the Principles within the investment industry.

ACT Treasury's focus is to implement Principle 4 through the following activities:

1. Press release of Chief Minister announcing endorsement of PRI.

2. Specifically requiring investment managers to report on whether they have endorsed the PRI, or are considering the PRI, as part of Investment Management Agreements.
3. Including specific questions on ESG and PRI in procurement activity.

ACT Treasury has developed appropriate mechanisms to promote the PRI amongst its investment managers and other relevant service providers.

PRI Principle 5

We will work together to enhance our effectiveness in implementing the Principles.

ACT Treasury's focus to implement Principle 5 has been to use its out-sourced ESG service providers to provide a collaborative network.

ACT Treasury has selected Regnan as an out-sourced engagement service provider. Regnan's business model is based around a group of like-minded asset owners collaborating on engagement activities. ACT Treasury collaborates with other Regnan clients to determine the engagement program.

ACT Treasury is connected to a network of PRI signatories through their service provider relationships that affords opportunities to collaborate. At the current stage of development of the PRI in Australia there are limited mechanisms to collaborate.

ACT Treasury's approach to implementing Principle 5 is appropriate and sufficient.

PRI Principle 6

We will each report on our activities and progress towards implementing the Principles.

ACT Treasury implements Principle 6 through the following process:

1. Completing the PRI annual questionnaire, and agreeing to make the answers publicly available through the PRI website.
2. Reporting to the Parliament and Government through established processes. This includes the fact that ACT Treasury officials can be questioned by the Parliament on their activities through a regular committee estimates process.
3. Reporting in the ACT Treasury Annual Report.

ACT Treasury is reporting on its implementation program through the PRI assessment process, established parliamentary processes including a regular parliamentary estimates process that involves ACT Treasury being available for questioning by members of the Legislative Assembly, as well as through the ACT Treasury Annual Report. It is considered that this level of scrutiny is in excess of the practice of other asset owners and is sufficient and appropriate.

Overall Comments

It is considered that ACT Treasury has made considerable progress implementing the PRI since its endorsement of the Principles on 1 July 2008.

ACT Treasury's approach has been methodical and thorough and has established a strong foundation for the future.

Given the developmental nature of the Principles for Responsible Investment it is considered that ACT Treasury has developed systems and processes to implement its commitments that are consistent with the practice of other PRI signatories, both in Australia and internationally.

ACT Treasury's approach to implementation of the PRI is considered to be both appropriate and sufficient.

Section 5: Considerations for Future

The PRI acknowledges that the Principles are ‘a work in progress’ that provide ‘a direction to head in rather than a prescriptive checklist with which to comply.’

Given the infancy of the PRI Initiative, and the fact that the bulk of the PRI signatory body have been participants in the PRI community for less than two years, it is expected that in the coming years there will be significant developments in responsible investment practice as signatories embed the Principles in their core investment processes.

A core internal objective for ACT Treasury officials should be to develop a plan to ensure that ACT Treasury’s implementation of PRI is not static, but evolves over time.

The following comments are made in respect of ways in which ACT Treasury’s implementation of PRI could evolve over coming years:

Active Participation in PRI Community

The PRI is in essence a network of like-minded investors. The PRI Secretariat provides a number of tools to support PRI signatories to network and collaborate. Active participation in the PRI community should be considered not just in terms of the benefits that it can provide ACT Treasury in terms of learning opportunities, but should also be considered as important in order to contribute to the future development of the PRI.

There are a number of ways in which ACT Treasury can play an active role in the PRI community:

1. ACT Treasury should ensure that it is represented at key PRI events, most particularly the PRI Annual Conference, which provides an opportunity for the PRI signatory body to be involved in the development of the PRI through the Annual General Meeting. ACT Treasury was represented at the 2009 PRI Conference in Sydney and should seek to attend this annual conference each year.
2. ACT Treasury should participate in PRI forums that are consistent with its interest. PRI is holding a series of regular webinars and forums that are providing signatories with an incredible learning opportunity. Participating in webinars and forums provides ACT Treasury with an efficient way of assessing new and innovative ways that the PRI is being implemented that relate to asset classes, efficiencies of implementation and particular ESG issues.
3. The PRI has developed a range of tools to support signatories to implement the Principles. ACT Treasury should regularly review these tools to assess their suitability and relevance to ACT Treasury’s responsible investment implementation program.

Integration

Integrating Engagement and Investment Manager Dialogue

ACT Treasury's implementation of the PRI in respect of its equities investments involves the contracting of an engagement service provider together with an ESG research house which provides a screening service in respect of particular identified ESG risks of companies in the target portfolio.

ACT Treasury utilises the screening information provided through the ESG research house to engage directly with its investment managers. Investment managers are asked to report on whether particular risks have been considered in respect of particular investee companies.

It is important that there be consistency in terms of the engagement that is provided on ACT Treasury's behalf by its outsourced engagement program, and the engagement with investment managers on particular ESG risks. Acknowledging that the specific conditions of service agreements can make seamless integration between the outsourced engagement program and Treasury's direct engagement with investment managers difficult, ACT Treasury should develop an internal management process to ensure consistency between the overall programs. This could consist of an annual overview of the key ESG issues identified through the information service provider and engagement service provider, coupled with feedback from investment managers on specific ESG issues.

Respecting client confidentiality in respect to the engagement service provider's engagement program, ACT Treasury's investment managers should be made aware of the broad principles and objectives of the engagement program in areas where the input of the investment manager – such as promoting ESG disclosure – may prove beneficial.

Proxy Voting

The ACT Government's 2007 Investment Advisory Board (IAB) report examining responsible investment recommended that the ACT Government consider the engagement of a third party proxy voting service provider.

ACT Treasury currently requires its investment managers to exercise proxy voting responsibilities. The following comments are made in respect of whether this practice is appropriate.

The international best practice guidance in respect of proxy voting is provided by the International Corporate Governance Network which issued a 'Statement on Institutional Responsibilities' in 2007^{ix}.

The statement highlights the responsibilities of investors both in their external role as owners of equity and their internal governance responsibilities to their beneficiaries.

In terms of proxy voting, the ICGN Statement makes the following point:

The ownership of equity carries important responsibilities, particularly due to the voting rights that can influence the way in which a business is conducted. Ultimate owners cannot delegate these responsibilities. Even when they employ agents to act on their behalf, it is up

to beneficial owners to ensure that the responsibilities of ownership are fulfilled by those agents.

In terms of the benefits of engaging a proxy voting service the following statement is made:

Those that represent beneficiaries need to be clear about the objectives of the beneficiaries. This involves careful consideration of key points, including the appropriate balance between short-term return and long-term value. Resources applied to governance and the exercise of votes may generate costs in the short term, but an increasing weight of evidence suggests this will add value in the long-term.

In terms of asset owners that delegate proxy voting responsibilities to investment managers, the ICGN makes the following statements:

- *Governing bodies should hold their portfolio managers and other agents employed to account for adhering to the standards set for them. They should develop clear channels for communicating their policies to beneficiaries, their portfolio managers and the companies in which they invest. They should regularly evaluate and communicate their achievements in meeting these policies.*
- *Those acting as agents should disclose all known potential conflicts of interest to their principal and explain how these are dealt with so as to protect their clients' interests. Decision makers along all parts of the investment chain should be appropriately resourced and meet relevant standards of experience and skill in matters subject to deliberation.*
- *Asset managers should have appropriate arrangements for reporting to beneficiaries on the way in which voting policy has been implemented and on any relevant engagement with companies concerned. As a matter of best practice they should disclose an annual summary of their voting records together with their full voting records in important cases. Voting records should include an indication of whether the votes were cast for or against the recommendations of the company management.*

It is considered that ACT Treasury can either engage a proxy service provider or continuing to require investment managers to exercise proxy voting responsibilities.

In terms of making this decision, ACT Treasury should consider the opportunity costs of engaging a proxy voting service provider.

In order to make an informed decision ACT Treasury should review the current practice of its investment managers against the statements of the ICGN. In particular the following questions should be explored:

1. Does the investment manager have an appropriate policy and procedure to manage conflicts of interest?
2. Is the investment manager appropriately resourced and skilled to exercise its responsibilities in matters subject to deliberation?
3. Does the investment manager have appropriate arrangements for reporting to beneficiaries on the way in which voting policy has been implemented and on any relevant engagement with companies concerned?

In the event that ACT Treasury's investment managers are able to answer these questions satisfactorily it is considered that continuing with the existing arrangement of requiring investment managers to exercise proxy voting responsibilities would be appropriate as opposed to hiring a proxy voting engagement service.

Other Asset Classes

ACT Treasury faces constraints in developing an integration program in relation to its fixed interest, property and private equity investments.

Fixed Interest Investments

ACT Treasury is required by legislation to invest in debt instruments that meet certain Standard and Poor's and Moody's credit limitations. The nomination of Moody's and Standard and Poor's as the rating agencies referred to in legislation, and the unit trust structure of ACT Treasury's fixed interest investments limits the opportunities for ACT Treasury to effectively integrate ESG into its fixed interest investments.

There are a number of developments that are occurring in respect of fixed interest investments, including the development of specific ESG ratings for debt instruments that ACT Treasury should monitor in order to be able to assess future opportunities to effectively integrate ESG into its fixed interest portfolio.

Private Equity

ACT Treasury has established two unlisted trusts through its investment adviser that mirror the fund of fund investments of the adviser. The trusts have a number of underlying specialist private equity fund managers, that in turn make the underlying private equity investments. Overall through the trust structure ACT Treasury has investments through 14 separate private equity firms. The pooled nature of investments makes it difficult for ACT Treasury to exercise control over the individual private equity investment managers. It is therefore difficult to develop an integration program in relation to private equity that could be delivered effectively.

Internationally there are a number of developments occurring in respect of private equity which should be monitored by ACT Treasury. ACT Treasury should engage with its investment adviser to ascertain its knowledge and views on responsible investment practices in respect of private equity investments.

Property

ACT Treasury invests in property through an unlisted, diversified property investment fund for wholesale investors. The fund has exposure to a mix of office, retail and industrial properties with a strong focus on income yield. As at 31 December 2009 the Fund had 76 investors with ACT Treasury's investment making up less than 15% of fund assets. The pooled investment structure makes it difficult for ACT Treasury to influence the direction of the fund. However, unlike with private equity, the fact that one investment manager is responsible for the underlying investments makes engagement with the manager potentially more effective. ACT Treasury should engage with

its property manager to ascertain its knowledge and views on responsible investment in respect of property investments.

PRI Support

In the last twelve months the PRI has begun to focus attention on providing signatories with resources and assistance around other asset classes. In particular the PRI has established work streams around property and private equity. It is considered that the work programs developed by the PRI can provide ACT Treasury with an understanding as to how other investors with comparable investment structures are approaching integration.

Development of Management Performance Tools

A key area of focus amongst PRI signatories is to develop mechanisms to measure progress implementing the PRI.

It is considered that there are a number of areas where ACT Treasury could develop internal management performance tools that could assist ACT Treasury officials to monitor their own progress:

- ESG risk scores: CAER provides ACT Treasury with the ability to generate a measure of ESG risk of an equities portfolio based on ACT Treasury's selection of screening utilising CAER's underlying database. This provides ACT Treasury with the ability to compare the perceived ESG risk of a portfolio from one period to another. It is recognised that given that there is some degree of subjectivity in the assessment adopted by the out-sourced ESG researcher, that this is not a perfect process. However, it does provide an indicator of risk that can be utilised to determine whether ACT Treasury's risk profile is increasing or decreasing over time. An ESG risk score should not be seen as a definitive measure of risk but can be used as an internal mechanism that can be compared over time.
- Training: given the evolving nature of responsible investment, and ESG issues themselves, it is considered that it is important for ACT Treasury to be able to assess the commitment of its investment managers to developing their own skills and capacity in ESG issues. Measures such as the number of training hours conducted in a particular year can be used to provide an indication of whether an investment manager is building long term capabilities in responsible investment and can be used as part of a dialogue with the investment manager on the quality and benefits of particular training.
- Engagement: ACT Treasury has the opportunity to provide proactive input with its engagement service provider to develop longitudinal measures to assess the effectiveness of engagement. The development of KPIs to measure engagement success may require the development of benchmarks in particular areas to provide a base level of comparison.
- PRI Assessment Survey: it is possible to develop a database of the core questions that are asked in each PRI Reporting and Assessment Survey in order to monitor ACT Treasury's own developmental progress. Whilst the results from the PRI Reporting and Assessment Survey will provide ACT Treasury with an understanding as to how the Territory is performing in

relation to its peers, and the wider PRI signatory body, it is important that ACT Treasury develop its own internal mechanisms to measure its performance given that comparison against peers will not always be appropriate due to the particular structure of ACT investments.

Whilst it is considered that the development of KPIs by PRI signatories is essential to the long term success of responsible investment it must nevertheless be stated that there is a danger that particular KPIs, if taken out of context, can misrepresent responsible investment as a process.

Implementation Strategies for Asset Classes

The PRI state that the *'Principles are designed to be compatible with the investment styles of large, and often diversified, institutional investors that operate within a traditional fiduciary framework. The Principles apply across the whole investment business.'*

Whilst the focus of many PRI signatories has been on implementing the PRI in particular asset classes, PRI signatories are making a commitment to integrating responsible investment across all investments that may be in a portfolio.

In practice, whilst ACT Treasury has the objective of implementing the PRI across all of its investments, its obligations under the *Financial Management Act 1996* and the *Territory Superannuation Provision Protection Act 2000*, by stipulating that certain investments need to be graded by Moody's and Standard and Poor's, in effect constrains the integration opportunities in its fixed interest investments.

In other asset classes such as private equity, the nature of the investment vehicle – principally, pooled investment vehicles - makes integration and engagement activities problematic.

Given these constraints, it is considered that ACT Treasury should focus its responsible investment program on areas where its integration and engagement programs are likely to have the most impact. Overtime it is expected that there will be developments across a range of asset classes in terms of responsible investment implementation practices. ACT Treasury should monitor the development of these responsible investment practices by participating in the programs provided by the PRI community. ACT Treasury should conduct a regular review of its implementation program to identify opportunities to build integration and engagement programs with respect to its property, fixed interest and private equity investments.

Review Processes

Responsible Investment Policy

ACT Treasury developed an ESG Investment Policy as part of its initial implementation of the PRI. It is recommended that ACT Treasury's ESG Investment Policy be reviewed on a regular basis to ensure that it remains consistent with best practice and actual implementation practice.

Investment Advisory Board

ACT Treasury has established an Investment Advisory Board (IAB) to advise Treasury in relation to financial returns and management of risks associated with ACT Treasury's investments.

Given the role of the IAB to provide ACT Treasury with advice, it is considered that it is appropriate that it also provide advice in respect to responsible investment. Incorporating responsible investment into the role of the IAB will ensure that responsible investment practice is considered as part of the overall policy framework. Over time, without necessarily having to expand the current number of IAB members, ACT Treasury should seek to identify a skilled finance professional that has an understanding of responsible investment to be a part of the IAB.

Section 5: Conclusions

Current Practice

Given the developmental nature of the Principles for Responsible Investment it is considered that ACT Treasury has developed systems and processes to implement its commitments that are consistent with the practice of other PRI signatories, both in Australia and internationally.

This report has reviewed ACT Treasury's implementation against seven core factors:

- Governance, Policy and Strategy
- Principle 1 – ESG Integration
- Principle 2 – Active Ownership
- Principle 3 – ESG Disclosure
- Principle 4 – Promotion
- Principle 5 – Collaboration
- Principle 6 - Reporting

The following comments are made in respect of ACT Treasury's implementation of the PRI:

- ACT Treasury has developed an ESG Policy for the Superannuation Provision Account (SPA), which is to be viewed in the context of ACT Treasury's existing investment policy for SPA, which should in turn be considered in terms of the Financial Guidelines established through the *Territory Superannuation Provision Protection Act 2000*. Overall it is considered that ACT Treasury's ESG Policy has all the elements for an appropriate and sufficient responsible investment policy.
- ACT Treasury has complied with the PRI's requirement to participate in an annual Reporting and Assessment Survey. The survey benchmarks the performance of signatories in respect to individual principles. Given that this was the first survey that ACT Treasury's overall performance in this survey is satisfactory. Of note, ACT Treasury's performance in the Governance, Performance, Strategy (GPS) category is strong. ACT Treasury is rated as being in the second quartile relative to asset owners in Asia-Pacific and in Australia. The GPS category is important in that it seeks to benchmark the overall governance framework that has been established to implement the Principles. It is considered that this is critical to implementing the Principle over the long term.
- It is considered that ACT Treasury's integration of ESG in its equities portfolio, by contracting with an ESG research specialist, engaging with investment managers and varying investment management agreements is consistent with the current practice of other comparable asset owner signatories and is an appropriate and sufficient response.

- It is considered that ACT Treasury's decision to contract with an outsourced engagement specialist to provide an engagement service in respect to Australian equities investments represents an appropriate strategy to adopt.
- ACT Treasury is reporting on its implementation program through the PRI assessment process, established parliamentary processes including a regular parliamentary estimates process that involves ACT Treasury being available for questioning by members of the Legislative Assembly as well as through the ACT Treasury Annual Report. It is considered that this level of scrutiny is in excess of the practice of other asset owners and is sufficient and appropriate.

It is considered that ACT Treasury has made considerable progress implementing the PRI since its endorsement on 1 July 2008.

ACT Treasury's approach has been methodical and thorough and has established a strong foundation for the future.

Given the developmental nature of the Principles for Responsible Investment it is considered that ACT Treasury has developed systems and processes to implement its commitments that are consistent with the practice of other PRI signatories, both in Australia and internationally and which are also consistent with its obligations as defined in the *Financial Management Act 1996* and the *Territory Superannuation Provision Protection Act 2000*.

ACT Treasury's approach to implementation of the PRI is considered to be both appropriate and sufficient.

Future Considerations

The Principles for Responsible Investment are an aspirational and voluntary set of principles that are designed to be used as a framework to guide an organisation's own activities. The goal of the Principles is to enable individual institutions to determine how to implement the framework and not to provide prescriptive directions. It is expected that in the coming years there will be significant developments in responsible investment practice as signatories embed the Principles in their investment processes.

A core internal objective for ACT Treasury officials should be to develop a plan to ensure that ACT Treasury's implementation of PRI is not static, but evolves over time.

The following recommendations are made in respect of the ongoing implementation of the PRI by ACT Treasury.

1. ACT Treasury should aim to be an active member of the PRI community. ACT Treasury should participate in PRI forums that are consistent with its interests and should regularly review the tools and services provided by the PRI to assess their suitability and relevance to ACT Treasury's responsible investment implementation program. ACT Treasury should aim to be represented at key PRI events, most particularly the PRI Annual Conference, which provides an opportunity for the PRI signatory body to be involved in the development of the PRI

through the Annual General Meeting. ACT Treasury should seek to attend this annual conference each year.

2. ACT Treasury should develop management performance tools that could assist ACT Treasury officials to monitor their own progress implementing the PRI. Specific areas where management performance tools can be developed include: ESG equity risk scores, training, engagement and the PRI Reporting and Assessment Survey.
3. ACT Treasury should develop an internal management process to ensure consistency between its engagement programs and dialogue with its investment managers. This could consist of an annual overview of the key ESG issues identified through the information and engagement service providers, coupled with feedback from investment managers on specific ESG issues.
4. ACT Treasury should review the current proxy voting practice of its investment managers against the International Corporate Governance Network Statement on Institutional Responsibilities 2007. In particular in respect to proxy voting practices, ACT Treasury should seek to assess whether its investment managers have appropriate policies and procedures to manage conflicts of interest, whether they are appropriately resourced and skilled to exercise their voting responsibilities in matters subject to deliberation and whether they have appropriate arrangements for reporting to beneficiaries on the way in which voting policy has been implemented and on any relevant engagement with companies concerned. In the event that ACT Treasury assesses that its investment managers do have these policies, skills and reporting practices in place then it is considered that continuing with the existing arrangement of requiring investment managers to exercise proxy voting responsibilities as opposed to engaging a proxy voting service would be appropriate.
5. ACT Treasury should focus its responsible investment program on areas where its integration and engagement programs are likely to have the most impact. Over time, it is expected that there will be developments across a range of asset classes in terms of responsible investment implementation practices. ACT Treasury should monitor these developments by participating in the programs provided by the PRI community. ACT Treasury should conduct a regular review of its implementation program to identify opportunities to build integration and engagement programs in respect of its property, fixed interest and private equity investments.
6. It is recommended that ACT Treasury's ESG Investment Policy be reviewed on a regular basis to ensure that it remains consistent with best practice and actual implementation practice.
7. ACT Treasury's Investment Advisory Board (IAB), which advises Treasury in relation to financial returns and management of risks associated with ACT Treasury's investments, should also provide advice in respect of responsible investment. Over time, without necessarily having to expand the current number of IAB members, ACT Treasury should seek to identify a skilled finance professional that has an understanding of responsible investment to be a part of the IAB.

End Notes

ⁱ United Nations Environment Program Finance Initiative, Asset Management Working Group, 'Demystifying Responsible Investment Performance, a review of key academic and broker research on ESG factors', Asset Management Working Group, October 2007

ⁱⁱ United Nations Environment Program Finance Initiative, Freshfields Bruckhaus Deringer / UNEP FI Asset Management Working Group, "A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment", 2005, Page 13

ⁱⁱⁱ ACT Chief Minister and Treasurer Jon Stanhope Press Release 250/08, ACT Governments becomes signatory to United Nations Principles for Responsible Investment, 1 July 2008

^{iv} ACT Treasury, Review of the Application of Environmental, Social and Governance Principles to Territory Investment Practices, 2007, Page 7

^v ACT Treasury, Review of the Application of Environmental, Social and Governance Principles to Territory Investment Practices, 2007, Page 8

^{vi} ACT Chief Minister and Treasurer Jon Stanhope Press Release 250/08, ACT Governments becomes signatory to United Nations Principles for Responsible Investment, 1 July 2008

^{vii} Australian Council Super Investors, *ACSI Governance Guidelines, A guide for superannuation trustees on the consideration of environmental, social & corporate governance risks in listed companies*, October 2009

^{viii} Section 6

^{ix} International Corporate Governance Network, Statement of Principles on Institutional Shareholder Responsibilities (2007)