ACT Government

Treasury

RESPONSIBLE

INVESTMENT

POLICY

LAST UPDATED:JULY 2012

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PURPOSE

This Responsible Investment Policy has been established by the ACT Government for the financial investment assets managed by the Treasury Directorate (Treasury) – the Superannuation Provision Account ("SPA") investment portfolio and the Territory Banking Account ("TBA") investment portfolio (together the "Investment Portfolios"). It is not intended to be a detailed operational narrative but a description of the key elements of the investment policy, including the governance and oversight of the Investment Portfolios.

RESPONSIBLE INVESTMENT POLICY STATEMENT

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

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

The Responsible Investment Policy incorporates a selective exclusion-based screening strategy.

LEGISLATIVE REQUIREMENTS

Moneys comprising the TBA investment portfolio may only be invested in accordance with the provisions of Section 38 of the *Financial Management Act 1996* ("FMA") and any financial management guidelines made under Section 38 of the FMA.

Moneys comprising the SPA investment portfolio may only be invested in accordance with the provisions of the *Territory Superannuation Provision Protection Act 2000* ("TSPPA") and any superannuation management guidelines made under the TSPPA.

INVESTMENT GOVERNANCE

The Treasurer has the ultimate responsibility for approving the high level strategic investment policy. The Under Treasurer has responsibility for investment implementation and operational related policy and activities.

Policy decisions made by the Treasurer are based on the advice and recommendations of Treasury.

A non-statutory appointed Investment Advisory Board is established to provide independent advice in respect of the investment objective(s), strategic asset allocation, manager configuration, governance and other investment matters. The Board's advice is considered along with all other available information by Treasury when formulating policy positions and recommendations.

Treasury is responsible for implementing investment policy, including governance, reporting, directing cash flows, and rebalancing, as well as managing service provider relationships.

STATEMENT OF INVESTMENT BELIEFS

The statement of investment beliefs forms the framework for current and future investment management policies for the financial investment assets of the Government.

Belief 1:	Beta (market-related risk) is the principal driver of investment returns for the investment portfolio.
Belief 2:	The equity risk premium will be the major driver of returns above the risk-free rate, but the investment strategy will seek to exploit other risk premia such as the credit, illiquidity and term premia.
Belief 3:	Alpha (manager skill) is a secondary driver of investment returns, and will only be used where there is a high level of conviction in the manager's ability to add value on a net of fees basis.
Belief 4:	It is necessary to take investment risk in order to achieve the return objectives, but there is no reward for taking more risk than required.
Belief 5:	Risk should be viewed both qualitatively and quantitatively and particular focus given to the nature and likelihood of extreme events that can negatively impact the reputation of the ACT Government.
Belief 6:	The primary definition of risk for the investment portfolio is the likelihood of negative returns. The extent of negative returns and volatility of absolute returns are considered secondary risk measures.
Belief 7:	Diversification amongst investment managers, asset classes and individual securities is an important part of managing investment risk.
Belief 8:	The ACT Government and Treasury will have regard to environmental, social and governance factors when determining the investment policies and strategies for the investment portfolio.
Belief 9:	As an asset owner 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.
Belief 10:	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.
Belief 11:	Companies that are unwilling or unable to take important ESG issues into consideration may put the company's reputation at risk, cause loss of market opportunities or diminish company value.
Belief 12:	The success of the investment outcomes will be directly related to the strength of investment governance arrangements.
Belief 13:	Costs and fees are an important consideration and all investment opportunities will be evaluated on a net of cost and fees basis.

FINANCIAL INVESTMENT OBJECTIVES

The SPA is established with the aim of accumulating financial assets to meet the ACT Government's defined benefit superannuation liability obligations. The TBA investment portfolio holds the cash of the general government, not required for immediate expenditure.

Superannuation Provision Account

Long term objective

The SPA's long term investment return objective for the SPA investment portfolio is to achieve an annualised return of CPI + 5 per cent (net of fees) whilst minimising the risk taken and costs incurred in achieving that outcome. Performance against this objective is measured from the 1996-97 financial year.

For this purpose, the primary definition of risk is the likelihood of a negative annual return. Treasury will also have regard to the expected size of negative returns in very poor years, as well as the volatility of absolute returns.

Short term objective

The short term investment objective for the SPA investment portfolio is to achieve a net of fees, annualised return which exceeds the performance of SPA's Strategic Asset Allocation benchmark return. Performance against this objective is measured on rolling financial year periods.

The Long Term investment objective is the more important of these two objectives.

Territory Banking Account

The investment return objective for the TBA investment portfolio is to achieve a return on a net of fee basis equivalent to the UBSA Bank Bill Index. This objective is targeted by limiting the investment portfolio to defensive, income producing, minimal volatility assets ranging from cash to domestic fixed interest with no requirement for high return-seeking investments such as shares.

RESPONSIBLE INVESTMENT OBJECTIVE

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

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

RESPONSIBLE INVESTMENT POLICY FRAMEWORK

Principles for Responsible Investment

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

A key objective of the PRI is to ensure that ESG risks and issues are incorporated into investment analysis and decision-making processes.

The Principles are voluntary and aspirational and do not call for the exclusion, screening or divestment of particular companies or industry sectors, but instead outline a policy of engagement with companies on ESG criteria.

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

The six Principles are expressed as follows:

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

By signing the PRI, the ACT Government has committed to adopt and implement the Principles, where consistent with Treasury's investment responsibilities. The Government's Responsible Investment Policy in relation to the key elements of the PRI include:

ESG Integration
The integration of ESG factors into the research and investment decision-making process will involve a variety of approaches utilising a wide range of available information sourced from individual companies, independent company or industry research, or direct company engagement.

ESG integration does not mean the exclusion of companies or sectors only on an ESG assessment, although this does remain an option if the overall investment analysis supports such a decision. The Principles promote a policy of incorporating an assessment of ESG factors and risks into the investment decision-making process.

External investment managers are required to integrate ESG issues and risks into financial analysis and decision-making and invest funds consistent with the core investment objectives described in this Responsible Investment Policy where financial investment assets are directly-owned by the Territory.

Active Ownership and Engagement

Active ownership and engagement is defined as:

- Being aware of, and monitoring key ESG issues in the context of share selection and portfolio construction;
- Making full use of the rights of ownership through actively exercising voting rights; and
- Constructive shareholder engagement and dialogue with a company's management on relevant ESG issues and concerns to improve management of ESG risks, corporate behavior and investment outcomes.

Proxy Voting

The ACT Government supports the voting of all directly-owned shares for the promotion of effective corporate governance, environmental and social practices, as well as long term value creation. The key objectives of the proxy voting policy are:

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

Voting is undertaken by the Treasury appointed external investment managers in accordance with the ACT Government's Proxy Voting Policy and any directions issued to them by Treasury, on behalf of the ACT Government.

Reporting and Disclosure

Treasury reports annually and discloses the following as part of Treasury's Annual Report:

- The Responsible Investment Policy;
- Key changes made to the investment portfolio or investment practices as a consequence of the progress and implementation of the Responsible Investment Policy;
- A list of the companies in which shares are directly-owned; and
- A record of all proxy voting actions for the financial year.

Global Norms-Based Investment Criteria

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

The norms-based investment criteria applied, is based on the United Nations Global Compact comprising ten principles that establish a set of core values for companies in the areas of human rights, labour standards, the environment and anti-corruption and enjoy universal consensus, derived from:

- The Universal Declaration of Human Rights;
- The International Labour Organisation's Declaration on Fundamental Principles and Rights at Work;
- The Rio Declaration on Environment and Development; and
- The United Nations Convention Against Corruption.

The Responsible Investment Policy recognises that it is unrealistic to expect to be able at all times to identify all companies that are complicit in serious violations of norms worldwide. On this basis, the norms-based criteria is applied as part of the overall investment analysis for directly-owned shares, it is not an inclusion/exclusion criteria.

The ten principles are expressed as follows:

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

Exclusion-based (negative) screening

The Responsible Investment Policy framework includes the selective use of an exclusion-based screening strategy.

The Government does not support exclusion-based or negative screening forming the principal strategy of action to give effect to responsible investment. The Government does accept that in some instances where the policy position and public support is so strong, there is a place for the exclusion of a limited number of activities or industries.

The exclusions that apply to the directly-owned share investments, based on reasonable grounds that all or a material part of the company's revenue or core business is attributable to the following activities, are:

- the manufacture of tobacco; and
- the manufacture of cluster munitions and landmines.

IMPLEMENTATION OF THE RESPONSIBLE INVESTMENT POLICY

The following describes the main actions being undertaken to implementing the Responsible Investment Policy:

Responsible Investment Policy Actions
A Responsible Investment policy statement to address ESG and Responsible investment issues
Integration of ESG and norms-based investment criteria analysis into investment decision-making processes and the selective use of exclusion-based screening for directly-owned investments
Investment managers are required on an annual basis to respond to an ESG questionnaire
Asset consultant is required to integrate ESG factors into evolving capital market and investment manager research and advice
Continuing to research and develop the integration of ESG issues into the management of not only listed shares, but other asset classes as well, including private equity, fixed income and unlisted property
Quarterly assessment of all directly-owned company holdings incorporating environmental, social and corporate governance considerations
Direct company engagement and dialogue on ESG risks and disclosure through an out-sourced service provider
The exercising of all ownership voting rights for directly-owned shares
Incorporation of an assessment of ESG capabilities of all service providers in procurement activity
Incorporation of ESG integration and reporting requirements in all relevant service provider contractual arrangements
Participation in PRI activities and Reporting and Assessment Tools where practicable
Disclosure of Responsible investment activities through Annual Reporting