RESPONSIBLE INVESTMENT POLICY

FOR THE INVESTMENT ASSETS MANAGED BY TREASURY

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

Chief Minister, Treasury and Economic Development Directorate

Version Control

Version No.	Date	Comments	Approver
1	July 2012	Policy as agreed by the Government and presented to the Legislative Assembly in August 2012	Cabinet
2	May 2014	Revised voting framework and transfer of investment objectives and beliefs to Investment Plan document	Treasurer
3	August 2015	Review of the Investment Management Guidelines (DI2015-238, DI2015-239)	Treasurer
4	November 2015	Amend Territory Banking Account investment exposures	Treasurer
5	January 2018	Additional disclosure about Investment Implementation Limitations	Treasurer
6	December 2018	Revised TBA investment structure	Treasurer
7	January 2022	Update	Treasurer
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PURPOSE

This Responsible Investment Policy establishes the framework for managing the financial investment assets of the ACT Government. These assets are administered by the Chief Minister, Treasury and Economic Development Directorate, represented by Treasury.

To support efficient cash and investment management, Treasury operates a centralised and unitised investment structure. This structure enables multiple investment options tailored to the specific objectives and requirements of applicable Directorates and Territory Authorities.

All external financial investments are undertaken through the Territory Banking Account (TBA), which operate the primary investment platform in the name of the Australian Capital Territory.

This Policy outlines the key principles and implementation approach for responsible investment and the overarching framework guiding investment decisions. This Policy is not intended to provide detailed operational procedures.

This Policy must be read in conjunction with the *Investment Governance Policy* and individual agency *Investment Plans*.

LEGISLATIVE REQUIREMENTS

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

Under the FMA:

- Section 38 authorises the Treasurer to invest monies held in the TBA or Directorate Banking Accounts in investments prescribed under the Investment Guidelines.
- Section 58 provides that funds not immediately required by a Territory Authority may be invested by the Treasurer, on behalf of that Authority, in investments permitted under section 38.

Where Administrative Units are prescribed as separate Directorates or operate under specific legislative arrangements, additional provisions govern the investment of funds by the Treasurer.

These include:

- Section 11 of the *Territory Superannuation Provision Protection Act 2000*, together with the *Superannuation Management Investment Guidelines 2015*;

- Section 80 of the *Lifetime Care and Support (Catastrophic Injuries) Act 2014*; and
- Section 14 of the *Public Sector Workers Compensation Fund Act 2018*, together with the *Public Sector Workers Compensation Fund (Investments and Funding Ratio) Management Guidelines*.

The Investment Guidelines require all investments to be made in accordance with an *Investment Plan* and the *Responsible Investment Policy*, both of which must be approved in writing by the Treasurer.

An *Investment Plan* sets out the investment risk and return objectives and the strategic asset allocation. The *Investment Governance Policy* framework sets out the governance arrangements for managing investments.

The *Responsible Investment Policy* outlines the responsible investment objectives, the framework for incorporating responsible investment considerations, share voting arrangements and any additional information relevant to the management of the Territory's investment portfolio.

RESPONSIBLE INVESTMENT POLICY STATEMENT

The primary purpose of the investment assets managed by Treasury is to achieve competitive financial returns in accordance with prudent investment and portfolio management principles. This is supported by an investment structure designed to be cost-effective, operationally efficient and capable of delivering market-aligned returns over the long term.

The Government recognises that both financial performance and environmental, social and corporate governance (ESG) factors can impact investment outcomes. The Government considers that the integration of ESG risks and active ownership responsibilities supports more informed investment decisions, helps mitigate potential risks and contributes to the sustainability and resilience of long-term returns.

RESPONSIBLE INVESTMENT OBJECTIVE

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

IMPLEMENTATION OF THE RESPONSIBLE INVESTMENT POLICY FRAMEWORK

Responsible investment considerations are integrated across all stages of the investment process, including:

- the development and implementation of investment strategy and asset allocation;
- the selection and appointment of investment managers through procurement processes and, where applicable, contractual arrangements;
- the exercise of ownership rights, including proxy voting for listed equity investments; and
- the ongoing monitoring of investment managers through regular engagement, supported by qualitative and quantitative reporting requirements.

Treasury does not undertake investment activities directly. Instead, external institutional investment managers are appointed to manage financial assets on behalf of the Territory. These managers are responsible for making independent, commercial investment decisions within the parameters agreed with Treasury.

Investments are implemented through:

- separately managed accounts (SMAs) where the Territory retains direct ownership of assets and exercises a higher degree of control through an investment management agreement; and
- wholesale managed funds which are unlisted unit trust structures in which the Territory invests alongside other institutional investors (or as a sole investor), holding units that represent an interest in the underlying assets.

The method of investment implementation influences how the Responsible Investment Policy is applied, particularly in relation to the level of control and the mechanisms available to incorporate ESG considerations.

SEPARATELY MANAGED ACCOUNTS ASSET CLASS IMPLEMENTATION

LISTED EQUITY INVESTMENTS

For listed equity investments implemented through separately managed accounts, the ACT Government applies a high level of control over portfolio construction.

With the support of MSCI, the appointed ESG research provider and index developer, Treasury has established custom ESG equity indices. These indices are derived from global and Australian parent benchmarks and are systematically screened to incorporate ESG considerations and business activity exclusions.

Companies included in the parent indices are assessed on an ongoing basis against defined ESG criteria and exclusion rules. Companies that do not meet these requirements are excluded from the custom ESG indices and are therefore ineligible for investment.

LISTED EQUITY INVESTMENTS - BUSINESS ACTIVITY EXCLUSIONS

The Government applies targeted business activity (negative) screening as part of the responsible investment approach. This reflects the Government's position that, in certain cases where there is strong policy alignment and community expectation, excluding specific activities or industries is appropriate.

The following exclusions apply to listed equity investments:

- Companies that manufacture tobacco products, such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco. This also includes companies that grow or process raw tobacco leaves.

- Companies where there is strong evidence of involvement in controversial weapons, comprising cluster munitions, landmines, biological/chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments.

- Companies that manufacture nuclear weapons including warheads and missiles, nuclear components and delivery platforms, or that are involved in the production and/or storage of fissile materials used in/for nuclear weapons, or that provide auxiliary services related to nuclear weapons, such as repair and maintenance.

- Companies deriving revenue greater than 10 per cent from gambling operations where a company owns or operates gambling facilities such as casinos, racetracks, bingo parlours, or other betting establishments, including horse, dog or other racing events that permit wagering, lottery operations, online gambling, pari-mutuel wagering facilities, bingo, pachislot and pachinko parlours, slot machines, mobile gambling and sporting events that permit wagering.

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

- Companies that own proven fossil fuel reserves including oil and gas and proven and probable coal reserves, including metallurgical and thermal coal reserves.

Companies identified as having material involvement in these activities are excluded from the custom ESG indices and are not eligible for investment.

LISTED EQUITY INVESTMENTS – ESG RISK ASSESSMENT EXCLUSIONS

The Responsible Investment Policy framework incorporates a structured ESG risk assessment for listed equity investments.

This assessment identifies material ESG risks and opportunities that may impact investment performance and valuation, including those arising from evolving global macroeconomic and sustainability trends. The risk assessment evaluates the extent of a company's exposure to these risks and the effectiveness of management practices relative to industry peers.

The ESG assessment covers:

- environmental factors, including carbon emissions and intensity, energy use and efficiency, climate change impacts, water usage and stress, biodiversity and land use, raw material sourcing and scarcity, and the management of waste, toxic emissions, packaging and electronic waste.

- social factors, including human capital development, labour standards including child labour, diversity and inclusion, discrimination, workplace health and safety, labour relations, supply chain practices, product quality and safety, chemical safety, data privacy and security, and broader health and nutrition considerations.

- governance factors, including corporate ethics, corruption and fraud risks, anti-competitive conduct, board composition and diversity, executive remuneration, and overall corporate governance practices and standards.

Companies assessed as having the highest ESG risk profile relative to their industry peers are excluded from the custom ESG indices and are not eligible for investment.

LISTED EQUITY INVESTMENTS – ESG CONTROVERSY ASSESSMENT EXCLUSIONS

The Responsible Investment Policy framework incorporates an ESG controversy assessment for listed equity investments.

This assessment is aligned with internationally recognised standards and norms including:

- the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises;
- the United Nations Global Compact Principles;
- the United Nations Guiding Principles on Business and Human Rights;
- the Universal Declaration of Human Rights;
- the International Labour Organisation's (ILO) conventions;
- the Rio Declaration on Environment and Development; and
- the United Nations Convention against Corruption.

The assessment evaluates a company's involvement in significant ESG controversies linked to its operations, governance practices, products or services. The assessment focuses on identifying instances where a company may be associated with serious or systemic breaches of applicable laws, regulations or widely accepted international norms.

Companies determined to be involved in very severe ESG controversies indicating substantial failures in governance, environmental management or social responsibility are excluded from the custom ESG indices and are not eligible for investment.

LISTED EQUITY INVESTMENTS – CLIMATE CHANGE RISK ASSESSMENT EXCLUSIONS

The Responsible Investment Policy framework recognises that the transition to a lower-carbon economy presents material financial risks. These include declining demand for carbon-intensive products and services, as well as increased regulatory, operational and capital costs associated with emissions reduction measures. Such factors may expose carbon-intensive companies to risks of reduced profitability and potential asset stranding over time.

To manage these transition risks, the framework applies defined carbon emissions and carbon intensity thresholds for listed equity investments.

These thresholds are based on the most recently reported or estimated Scope 1 and Scope 2 greenhouse gas emissions including:

- absolute emissions thresholds for companies with total Scope 1 and Scope 2 emissions exceeding 40 million metric tonnes; and
- emissions intensity thresholds for companies with emissions intensity greater than 3,000 metric tonnes.

Companies that exceed either of these thresholds are excluded from the custom ESG indices and are not eligible for investment.

AUSTRALIAN SOVEREIGN BOND INVESTMENTS

Investment is limited to constituent Australian Government and semi-government securities included in the Bloomberg AusBond Government index.

INTERNATIONAL SOVEREIGN BOND INVESTMENTS

Investment is limited to constituent Government securities included in the Bloomberg Global Treasury Developed Countries index.

INVESTMENT GRADE CREDIT INVESTMENTS

Investment in this asset class is primarily focused on Australian investment grade securities including corporate bonds, floating-rate notes, asset-backed securities and short-term securities.

An ESG assessment framework is applied as an integral component of the credit analysis and security selection process. This framework incorporates an ESG rating methodology that evaluates both current and emerging ESG risks supporting capital preservation and minimising exposure to issuers that may experience credit quality deterioration.

Relevant ESG considerations vary by industry, sector and issuer and may include:

- Board composition and governance practices;
- management capability, experience and track record;
- actual and potential regulatory risks;
- sustainability performance and commitments;
- environmental impact and resource usage; and

- workplace health and safety practices.

The integration of these factors supports more informed credit assessments and contributes to the long-term resilience of the investment portfolio.

MANAGED FUND UNLISTED PROPERTY IMPLEMENTATION

Investment in unlisted Australian property includes ESG considerations focused on how assets are developed, operated and managed over the long-term. These considerations align with industry frameworks such as GRESB, NABERS, Green Star and Australian regulatory expectations.

Main considerations include:

- environmental factors such as energy efficiency and emissions, climate risk and resilience, water management, waste and circular economy, sustainable design and certification and biodiversity and land use.

- social factors such as tenant health and wellbeing, accessibility and inclusivity, community impact, workplace health and safety and tenant engagement and satisfaction.

- governance factors such as ESG integration and management systems, data and reporting, compliance and risk management, manager capability and incentives and supply chain governance.

The integration of these factors supports the management of long-term risks tied to asset quality and obsolescence, capital expenditure requirements, valuation impacts and tenant demand trends over the long-term.

MANAGED FUND UNLISTED INFRASTRUCTURE IMPLEMENTATION

Investment in unlisted infrastructure assets includes ESG considerations focused on long-lived, capital intensive assets and their significant environmental and societal footprint.

These considerations are typically embedded across asset lifecycle stages including how these assets are developed, operated and managed over the long-term.

Main considerations include:

- environmental factors such as climate change and emissions, climate risk and resilience, energy transition exposure, resource use and environmental impact and environmental approvals and compliance.

- social factors such as community and stakeholder engagement, health and safety, service reliability and affordability, human rights and labor practices and regional and economic contribution.
- governance factors such as regulatory framework and compliance, asset governance and oversight, contractual structures, transparency and reporting, cybersecurity and operational resilience.

The integration of these factors supports the management of long-term risks tied to regulation, climate transition and social licence, while ensuring assets remain resilient, compliant and economically viable over the long-term.

To support the transition to a low-carbon economy investment in the infrastructure asset class includes the allocation of capital to renewable energy assets including solar, wind and battery storage.

This provides the dual objective of generating long-term risk adjusted financial returns and delivering measurable sustainability outcomes including reduction in asset carbon intensity, increased exposure to climate solutions and contribution to national and global decarbonization goals.

MANAGED FUND ASSET CLASS IMPLEMENTATION

For investments implemented through managed funds providing exposure to asset classes such as alternate debt and private equity, ESG risks and sustainability considerations are incorporated throughout the investment lifecycle.

This includes:

- investment strategy and asset allocation processes, where ESG factors are considered in determining portfolio construction and allocation decisions across asset classes;
- manager and fund selection and due diligence, where ESG capability and integration are assessed as part of the Territory's procurement processes for the appointment of investment managers and selection of managed funds; and
- ongoing monitoring and oversight, where investment managers and underlying assets are subject to continuous monitoring through regular engagement, supported by qualitative and quantitative reporting on performance and ESG-related matters.

This approach ensures that ESG considerations are embedded in the selection, management and oversight of managed fund investments, consistent with the broader Responsible Investment Policy framework.

ACTIVE OWNERSHIP

Active ownership is an integral component of the Responsible Investment Policy framework and includes:

- maintaining awareness of, and monitoring, key ESG risks and issues in the context of portfolio construction and overall investment exposures;

- exercising ownership rights, including the active use of proxy voting for listed equity investments; and

- undertaking constructive shareholder engagement through external specialist providers. This includes ESG research and analysis of corporate and operational risks, as well as engagement activities that support informed proxy voting decisions, including voting recommendations and implementation of voting actions.

This approach supports effective stewardship and promotes improved ESG practices among investee companies.

PROXY VOTING

Proxy voting is undertaken for all listed equity investments to support effective corporate governance, responsible environmental and social practices and long-term value creation.

Voting decisions are informed by an external proxy voting advisor, which provides research and recommendations aligned with a *Sustainability Proxy Voting* framework consistent with this Responsible Investment Policy.

The framework guides voting on a case-by-case basis, with a focus on promoting transparency, sound governance and responsible business practices. This includes consideration of key ESG risks and support for proposals that enhance long-term shareholder value.

The Proxy Voting Policy framework must be read in conjunction with the *Responsible Investment Policy* framework.

PROCUREMENT ACTIVITY

All financial investment-related procurement processes include an assessment of ESG capabilities and methodologies when selecting external investment service providers.

Where appropriate, contractual arrangements incorporate ESG-related requirements to support alignment with the Responsible Investment Policy.

REPORTING AND DISCLOSURE

Information on responsible investment activities is publicly available via the Treasury website (Treasury Publications).

This includes the publication of:

- the Responsible Investment Policy;
- the Investment Governance Policy;
- individual Investment Plans;
- the Proxy Voting Policy;
- Territory listed equity holdings (updated quarterly); and
- Proxy voting activity (reported quarterly).