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Environmental, social and corporate governance (ESG) issues policy

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LUCRF super
An Industry SuperFund

Introduction

We consider the environmental, social and corporate governance (ESG) performance of companies in which we invest (investee companies) to be relevant to the performance of our investment portfolio.

We recognise that ESG risks in our investment decision-making processes need to be considered to protect and manage our investments for the long-term.

We also consider the integration of ESG information throughout mainstream investment analysis to be essential.

We therefore promote integration of material issues into our investment decision-making by the investment committee, the internal investment team, external investment managers and external advisers.

In accordance with our investment policy and our strategic asset allocation, we invest a large part of our assets in Australian and International equities. We regularly assess and review the shareholdings in the context of performance, risk and return considerations.

We also assess ESG risks in other asset classes (i.e. property and infrastructure). However, our investments in these asset classes are predominantly through unit trusts. The focus of this ESG policy is on Australian and international equities as the policy relates mainly to active ownership given the majority of our equity investments are via individual management agreements (IMAs).

ESG Issues and our fiduciary and statutory duties

The 'sole purpose test' arising from the Superannuation Investment (Supervision) Act 1993 (SIS Act) requires a trustee to pursue activities relevant to the provision of retirement income to members. These legal requirements are expressed in reasonably broad terms.

The SIS Act imposes a set of key covenants on trustees including:

a. to ensure the trustee's duties and powers are performed and exercised in the best interests of the beneficiaries

b. to formulate and give effect to an investment strategy that has regard to the whole of the circumstances of the fund including (among other things) the risk involved in making, holding and realising, and the likely return from our investments having regard to our investments and expected cash flow requirements.

The link between ESG performance and financial returns for equities

We believe that companies that best manage ESG risks, impacts and opportunities, are more financially sustainable in the long term and will deliver better long-term financial performance.

Companies that are unwilling or unable to take important ESG issues into consideration may:

a. put the company's reputation at risk

b. cause loss of market opportunities

c. diminish company value

d. adversely affect other companies in which we have invested.

Poor ESG practices can lead to financial risks as well as a decline in investment value. If ESG factors have a potentially material impact on the financial performance of investments, they should be analysed and taken into account in investment decisions.

Our relationship with investment managers on ESG practices

Implementation of active ownership

As already outlined in this policy, we consider the integration of ESG information throughout mainstream investment analysis to be relevant. It therefore promotes integration of material issues into our investment decision- making by the internal investment team, external investment managers and external advisers.

We ensure that our appointed voting service provider and/or investment managers:

- exercise our ownership rights
- manage investments on our behalf with long-term benefits in mind.

While ESG risks often feature in the standard risk management practices of leading Australian businesses, investment managers generally do not adequately account for the potential damage to long-term shareholder value that mismanagement of these issues could incur.

We will review the performance of our investment managers to assure ourselves that our investment objectives are being met both on a short-term and a long-term basis.

We aim to be an active owner of our investments. We define 'active ownership' as:

a. being aware of and monitoring the key ESG issues in the context of stock selection and portfolio construction

b. using the rights of ownership in order to exert influence on a company's policies through actively exercising votes at company meetings

c. where appropriate, proposing resolutions at shareholder meetings

d. holding regular constructive dialogue with the company's management (directly, collaboratively or through outsourcing)

e. undertaking engagement with investment managers, external ESG advisers and companies on relevant ESG issues.

In general terms, we will seek to influence the behaviour of companies by engaging with companies to assist them in improving their behaviour rather than by divesting.

Socially responsible investing (SRI) screen

We may consider divesting, taking into account all aspects of the investment. The current exclusions are primary manufacturers of tobacco and cluster munitions.

Proxy voting

We aim to exercise our ownership rights through voting. The voting is exercised based on our policy and guidelines via our appointed voting service provider for mandated investments.

Policy guidelines

For Australian equities, we adopt or accept either:

- the Australian Council of Superannuation Investors' (ACSI) guidelines
- the Financial Services Council's (FSC [previously Investment and Financial Services Association (IFSA)]) guide for fund managers and corporations and/or ASX's corporate governance principles and recommendations.

For international equities, we adopt the Organisation for Economic Co-operation and Development's (OECD) principles as basic principles. The International Voting Alert guidelines published by ACSI and our proxy voting service provider are used for reference.

The voting policy aims to promote best practice of corporate governance by seeking to influence corporate entities in increasing the value provided to our various stakeholders. The main issues of corporate governance considered are:

- board and senior management responsibilities for ESG issues
- board and board committee structure, ensuring independence, accountability and board effectiveness
- application of appropriate measures of board and management performance and remuneration, along with a sound remuneration structure
- transparent financial integrity, including continuous and timely disclosure on material issues
- ensuring fair and equal voting rights for all shareholders
- sustainable capital structures and appropriate allocation of profits amongst stakeholders
- ensuring the best interests of shareholders in the case of mergers/acquisitions.

Procedure

We appoint a voting service provider to exercise proxy voting rights on our behalf, consistent with the objective of maximising sustainable long-term outcomes for our members. However, we reserve the right to direct vote on all matters and will instruct the voting service provider accordingly.

Contentious issues must be referred to us and we may retain a corporate governance adviser. When we become aware of particular issue/s relevant to our investments, the matter is reviewed by our internal investment team. Following review:

- if the matter falls within policy guidelines our internal investment team sends the voting instruction to our voting service providers, and reports this at the next LUCRF Super investment committee
- if the matter is considered contentious by our internal investment team, it is referred to our investment committee for decision prior to any instruction being issued (as detailed below).

Disclosure of voting behaviour

Voting results of mandated Australian and Developed International Equity investments are reported at least annually via our website or other communication methods to members within the timeframe as required.

Engagement

We appoint external investment managers to manage most of our investment portfolio.

As part of their investment mandate with us, external investment managers are provided with this policy and expected to monitor ESG issues that relate to our investment. This policy will be provided to new external managers as part of the IMA. Any new investment managers will be expected to also monitor ESG issues that relate to our investments.

External investment manager's ESG policies and reporting

In particular, external investment managers will regularly be required to:

a. provide us with details of the manager's ESG policies

b. report to us at agreed intervals on:

1. the manager's ESG activities, including research, voting (where applicable) and engagement with companies
2. how the manager integrates consideration of ESG issues into its investment analysis and decision-making processes
3. when the manager is responsible for voting:
    - the extent to which, if at all, the manager has voted at meetings for companies that form part of the trust
    - how the manager exercised its voting rights on ESG issues i.e. votes for, against or abstentions.

External investment managers' research, analysis and evaluation process

We encourage external investment managers to have communication with investee companies as a key part of their ongoing research, analysis and evaluation process. However, we reserve the right to engage independently from the investment manager with investee company boards and management on ESG issues.

External investment manager's progress on ESG issues

External investment managers will advise us as to how they intend to progress ESG issues. We will monitor how the investment managers manage these issues to ensure that the best financial outcomes for our members are obtained. External investment managers will report to us on the outcomes arising from their engagement with companies.

Contentious ESG issues

If we identify an ESG issue for a particular company or investment as contentious, we will give real and genuine consideration as to how that issue impacts on our investments and the interest of our members generally. We will then determine which options for action we may exercise. In determining an appropriate course of action, we may obtain advice from our advisers.

External ESG advisors

We may appoint a specialist adviser on ESG issues. The adviser's role may include:

a. providing ongoing advice on our ESG policies and practices

b. providing timely information and advice to us on ESG issues arising out of investee companies

c. reviewing external manager's compliance with our ESG policy including reviewing their voting performance on 'non-contentious' matters and their referral of 'contentious matters' to us.

Co-operation of market participants

We believe that cooperating with other parts of the investment industry (such as ACSI, and Investor Group on Climate Change [IGCC]) will help to create synergies and increase the impact of collective activities.

The key benefits of collaborative initiatives can include:

a. articulating a coordinated view on specific issues from a group of investors

b. maximising the efficiency of research and engagement activities

c. enabling investors to engage with more companies, sectors and markets than would otherwise be possible

d. sharing experience and understanding of issues, companies and sectors

e. strengthening links within the investment industry.

We are a signatory to the United Nations Principles for Responsible Investment (PRI) to encourage collaboration amongst market players as well as our belief regarding ESG's impact on investment.

The PRI's establish a collective international framework for institutional investors to integrate ESG considerations into their investment decision-making.

Briefly, those principles are:

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

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

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

d. we will promote acceptance and implementation of the principles within the investment industry

e. we will work together to enhance our effectiveness in implementing the principles

f. we will each report on our activities and progress towards implementing the principles.

We believe that the PRI's provide an important universal framework for signatories to work together, learn from each other and provide a collective voice on ESG issues. We also believe that the PRI's will continue to grow as a framework for investors to communicate their expectations on ESG issues to their investee companies.

Definitions

- **LUCRF Super (Trustee)**
  L.U.C.R.F. Pty Limited (ACN 005 502 090) of Level 3, 833 Bourke Street, Docklands, Victoria in its capacity as trustee of the Labour Union Co-operative Retirement Fund (Trustee).

- **Australian Council of Superannuation Investors (ACSI)**
  An organisation that provides the independent research and advice to assist its member superannuation funds to manage ESG investment risk.

- **Investor Group on Climate Change (IGCC)**
  A collaboration of Australian and New Zealand investors focusing on the impact that climate change has on the financial value of investments.

- **Mandated investments**
  Investments made by or through investment management agreements between manager and asset owner.

- **Non-mandated investments**
  Investments made through pooled funds.