IGF-P4:
ESG Policy

Version 5.00
(26 June 2019)

Document version control & approval

Version	Date	Approval (if applic.)	Author (name & title)	Details of amendments or approval
0.01	6 May 2009	n/a	Greg Sword, Chief Executive Officer	Final draft version of inaugural policy document, tabled at IC meeting of 6 May 2009 for endorsement for Board approval *(outcome: endorsed by IC for Board approval).*
1.00	17 Jun 2009	**LUCRF Board**	Karen Hutchinson-Drake, Policy & Business Projects Manager	v0.01 formally approved by Board at their meeting of 17 Jun 2009; finalised as Version 1.00.
1.02	24 Jun 2013	n/a	Yasuyuki Toyosaki, Senior Analyst	Final draft of substantially revised policy (addressing MySuper disclosure requirements), tabled at IC meeting of 19 June 2013, and endorsed (for Board approval) by the IC via circular resolution over 25-27 Jun 2013.
2.00	3 Jul 2013	**LUCRF Board**	Karen Hutchinson-Drake, Policy & Business Projects Manager	v1.02 formally approved by Board at their meeting of 3 Jul 2013; finalised as Version 2.00.
2.02	17 Jun 2015	n/a	Yasuyuki Toyosaki, Senior Analyst	Final draft of updated policy, tabled at IC meeting of 17 Jun 2015 for endorsement for Board approval *(outcome: endorsed by IC).*
3.00	24 Jun 2015	**LUCRF Board**	Yasuyuki Toyosaki, Senior Analyst	v2.02 formally approved by Board at their meeting of 24 Jun 2015; finalised as Version 3.00.
3.01	6 Apr 2016	n/a	David Tieu, Investment Analyst	Migration of v3.00 into this new policy document within the LUCRF Trustee Investment Governance Framework (IGF). Content from v3.00 copied unamended.
3.02	2 Jun 2016	n/a	Yasuyuki Toyosaki, Senior Analyst	Changed the name of the policy to appropriately reflect the contents, added sub-section headers in section 4 to clarify divestment.
3.04	16 Sep 2016		Leigh Gavin, Head of Investments	v. 3.03 reviewed by Investment Committee on 15 Sep 2016 with some minor amendments suggested and incorporated.
4.00	26 Oct 2016	**LUCRF Board**	David Tieu, Investment Analyst	v3.04 approved by the Board at their meeting on 26 Oct 2016, and subsequently finalised (unamended) as version 4.00.
4.01	7 May 2019		Kevin Branton, Manager, ESG & Investment Integration Leigh Gavin, CIO	V 4.01 includes a series of amendments to clarify proxy voting in particular. More changes likely in 2019/20, as APRA issues guidance re: ESG expectations
4.02	21 May 2019	n/a	Leigh Gavin, Chief Investment Officer	Incorporated changes as suggested from Special Investment Committee meeting, 21 May 2019.
5.00	26 June 2019	**LUCRF Board**	Leigh Gavin, Chief Investment Officer	V4.02 approved by the Board at their meeting on 26 June 2019, and subsequently finalised (with minor amendments) as version 5.00.

Policy content structure

1. Introduction

LUCRF considers the Environmental, Social and Corporate governance (ESG) performance of companies in which the Fund invests ("investee companies") to be relevant to the performance of LUCRF's investment portfolio.

LUCRF recognises that it should consider ESG risks in its investment decision-making processes in order to protect and manage its investments for the long-term.

LUCRF also considers the integration of ESG information throughout mainstream investment analysis to be essential, and therefore promotes integration of material issues into its investment decision-making by the Investment Committee, the internal investment team, external investment managers and external advisers.

The Fund's ESG Policy has historically been centred on listed equities, as this is where the bulk of active ownership and engagement activities have taken place and where policy is required to govern activity (such as proxy voting). Over time, it is expected that the Fund's ESG Policy will expand more in to other asset classes, as active ownership increasingly encompasses more asset classes and activities.

2. Link to Trustee Investment Beliefs

From the Trustee Investment Beliefs, the following are considered relevant to ESG:

No.	LUCRF Trustee Investment Belief
1.	High quality governance of the investment process is critical to our success as a fund.
9.	We believe that environmental (including climate change), social and governance opportunities and risks exist and should be taken into consideration to the extent we can practically do so and within the context of optimising net risk-adjusted returns.
10.	We believe that our investment activities can enhance the net risk-adjusted returns to members and support specific social factors that are a priority for our members.

3. Link to PRI

LUCRF is a signatory to the United Nations Principles for Responsible Investment (PRI) to encourage collaboration amongst market players as well as our belief about ESG's impact on investment. In the course of this Policy's development, the Trustee has considered the UN PRI to provide important context for policy formulation. The PRI is a set of six aspirational principles designed to encourage and assist investors to integrate ESG considerations into their investment processes aimed at improved universal outcomes.

The Trustee believes the UN PRI (now known as the PRI) provides an important universal framework for signatories to work together, learn from each other and provide a collective voice on ESG issues. The Trustee also believes the PRI will continue to grow as a framework for investors to communicate their expectations on ESG issues to their investee companies.

LUCRF believes that co-operating with other parts of the investment industry (such as the Australian Council of Superannuation Investors, and Investor Group on Climate Change) 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. Maximizing 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.

The Principles for Responsible Investment establish a collective international framework for institutional investors to integrate ESG considerations into their investment decision-making.

Briefly, those principles are:

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.

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

4. ESG Issues and LUCRF's 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:

1. To ensure the trustee's duties and powers are performed and exercised in the best interests of the beneficiaries; and

2. 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, the Fund's investments having regard to its investments and expected cash flow requirements.

5. The Link between ESG performance and Financial Returns

LUCRF believes 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 companies' reputation at risk,

b. Cause loss of market opportunities,

c. Diminish company value, and

d. Adversely affect other companies in which LUCRF has invested.

Poor ESG practices can lead to financial risks as well as a decline in investment value, which can affect the value of both equity and debt instruments. 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.

6. Fund’s relationship with Investment Managers on ESG practices

6.1 Implementation of active ownership

As outlined in Section 3 of this policy, LUCRF considers the integration of ESG information throughout mainstream investment analysis to be relevant, and therefore promotes integration of material issues into its investment decision-making by the internal investment team, external investment managers and external advisers.

LUCRF ensures that it’s appointed voting service provider and /or investment managers:

- Exercise LUCRF’s ownership rights, and
- Manage investments on behalf of LUCRF 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.

LUCRF will review the performance of its investment managers to assure themselves that LUCRF’s investment objectives are being met, both on a short-term and a long-term basis.

LUCRF aims to be an active owner of its 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, LUCRF will seek to influence the behaviour of companies by engaging with companies to assist them to improve their behaviour, rather than by divesting.

6.2 Socially responsible investing (SRI) screen

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

7. Proxy Voting

LUCRF aims to exercise its ownership rights through voting. The voting is exercised based on its policy and guidelines via its appointed voting service provider for mandated investments.

7.1 Policy guidelines

For Australian equities, LUCRF adopts or accepts either the Australian Council of Superannuation Investors' ("ACSI") guidelines and/or Financial Services Council's ("FSC" [previously Investment and Financial Services Association ("IFSA")]) guide for fund managers and corporations.

For international equities, the International Voting Alert Guidelines published by ACSI and Glass Lewis are used for reference.

The voting policy aims to promote best practices of corporate governance, by influencing corporate entities so as to increase the value provided to the organisation's various stakeholders. The main issues of corporate governance considered are:

- Board and senior management responsibilities for environmental, social as well as governance issues.
- Board and board committee structure, ensuring independence, accountability and board effectiveness.
- Application of appropriate measures of board and management's 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, and ensuring the best interests of shareholders in the case of mergers/acquisitions.

7.2 Procedure

LUCRF appoints a voting service provider to exercise proxy voting rights on behalf of the Fund, consistent with the objective of maximising sustainable long-term outcomes of the Fund's members. However, LUCRF reserves the right to direct votes on all matters and will instruct the voting service provider accordingly. ESG Policy implementation & compliance is delegated to the CIO in accordance with *IGF-P3 Investment*

Governance Structure. Contentious issues are either referred to LUCRF who may retain a corporate governance adviser, or are raised by the Investment Team, for instance as a result of discussions with fund managers and/or advisors, or indeed engagement with the company affected. When LUCRF becomes aware of particular issue/s relevant to the Fund's investments, the matter is reviewed by LUCRF's internal investment team, taking advice from our advisor(s). Following review:

i. If the matter falls within policy guidelines our internal investment team sends the voting instruction to our voting service providers, and reports this to the next LUCRF's Investment Committee.

ii. If the matter is considered contentious by our internal investment team, it is referred to LUCRF's Investment Committee for decision prior to any instruction being issued (refer below).

7.3 Disclosure of voting behaviour

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

8. Engagement

LUCRF has appointed external investment managers to manage most of its investment portfolio.

As part of their investment mandate with LUCRF, external investment managers are provided with this policy and expected to monitor ESG issues that relate to the Fund's investment. This policy will be provided to new external managers as part of the Investment Management Agreement. Any new investment managers will be expected to also monitor ESG issues that relate to the Fund's investment.

8.1 External investment managers' ESG policies and reporting

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

a. Provide details of the manager's ESG policies to LUCRF.

b. Report at agreed intervals to LUCRF on:

- The manager's ESG activities, including research, voting (where applicable) and engagement with companies,
- How the manager integrates consideration of ESG issues into its investment analysis and decision-making processes,
- 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, and
    - How the manager exercised its voting rights on ESG issues, i.e. votes for, against or abstentions.

8.2 External investment managers’ research, analysis and evaluation process

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

8.3 External investment managers’ progress on EGS issues

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

8.4 Contentious ESG issues

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

9. External ESG Advisors

LUCRF may appoint a specialist adviser on ESG issues. The advisers’ role may include:

a. Providing ongoing advice on the Fund's ESG policies and practices.

b. Providing timely information and advice to LUCRF on ESG issues arising out of investee companies.

c. Reviewing external managers' compliance with the Fund's ESG policy, including reviewing their voting performance on "non-contentious" matters and their referral of "contentious matters" to LUCRF.

10. Co-operation of Market Participants

LUCRF believes that co-operating with other parts of the investment industry (such as the Australian Council of Superannuation Investors, and Investor Group on Climate Change) 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. Maximizing the efficiency of research and engagement activities.

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

11. Disclosure

The policy is made available on the Fund's website.

12. Definitions

- ***LUCRF (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 environmental, social and corporate governance (ESG) investment risk

- ***Investor Group on Climate Change (IGCC)***

  A collaboration of Australian and New Zealand investors focussing 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

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