

Local Government Super

2 Degree Invest Award: Runner Up for Best Engagement

Climate change risks and opportunities - 2015 2016

Executive Summary

Local Government Super (LGS) has a strong history of leading change in the investment industry on climate change. In October 2014, LGS was the first major super fund globally to introduce a new investment restriction to integrate climate risks into investment decisions. This restriction means that LGS will no longer actively invest in companies that derive more than 33% of their revenue or assets from coal mining, coal fired electricity generation and oil tar sands. Since implementing this restriction on fossil fuel investment and undertaking an innovative carbon portfolio audit, LGS has reduced its carbon emissions for international equities to 9.5% below its benchmark. During this time the portfolio has also continued to outperform the market, in turn providing strong returns for LGS members. LGS also has over \$770 million invested in low carbon opportunities across a range of asset classes. In recognition of this significant achievement, LGS has achieved the number one ranking for Australian super funds in the 2015 and 2016 'Global Climate 500' index by the Asset Owner's Disclosure Project (in addition to the number one ranking globally in 2015), as well as the 2015 SuperRatings Infinity Award for Sustainability¹ and the Money Magazine 'Best Green Super Fund' award.

Introduction

Local Government Super (LGS) manages over \$9 billion in superannuation assets for 90,000 current and former local government employees in Australia. LGS is a certified responsible investor², with investments across Australian and international shares, property, infrastructure, private equity, fixed income and absolute return asset classes.

As an institutional investor that is responsible for safe guarding member's pension funds, LGS has a mandate to be long term and forward looking. We recognise that our ability to maintain strong investment returns for our members over the long term depends upon the existence of a healthy and productive environment, cohesive societies and well governed companies.

Given that a large proportion of our member base is involved in grass roots sustainability programs i.e. they are at the coal face dealing with environmental and social issues on a day to day basis, they are motivated to ensure that their retirement savings are invested in a way that does not negate their work or their future. By utilising a responsible investment approach and incorporating risks such as climate change into our investment decisions, we help cement our social licence to operate across our membership base (and future target market) and maintain our position as the preferred investor to manage their pension funds.

The LGS investment process is guided by a responsible investment (RI) policy that applies to all asset classes. The [LGS Sustainable and Responsible Investment Policy](#) identifies climate change as the biggest risk faced by our fund and commits us to address climate change risks and opportunities through our environmental, social and governance (ESG) integration and active ownership strategies outlined

¹ SuperRatings is an Australian superannuation research and consulting firm. The SuperRatings Infinity award is given to an Australian fund that best demonstrates their commitment to addressing its environmental and ethical responsibilities.

² LGS is a certified responsible superannuation fund under the Responsible Investment Association Australasia's responsible investor certification scheme. Details are available at <http://responsibleinvestment.org/certification/certified-super-fund-whole-of-fund/>.

below. We are committed to this approach as we believe that by integrating ESG factors (including climate change) into our investment process we are better able to manage long-term financial risks and in turn, provide strong returns for our members. As a result, we are confident that we are meeting our fiduciary duty under Australian law in that we are ensuring we take all risks into account when making investment decisions i.e. not just financial risks but also environmental, social and governance risks as well. The overarching LGS Investment Policy Statement, Due Diligence Policy and Risk Management Statement all refer specifically to the SRI Policy to ensure that RI issues (including climate risks and opportunities are integral to all aspects of the management of the LGS investment portfolio.



We adopted an initial framework for managing climate investment risks and opportunities across our fund in 2009. Underpinning this action is our belief that investors need to minimise climate risk and send a strong signal to the market about moving towards a global low carbon economy. Continuing to invest in carbon intensive activities puts our members' retirement savings at risk and undermines any progress society is able to make in reducing global carbon emissions.

We regularly conduct reviews of our investment strategy to ensure we are addressing climate risks. The review process involves formally engaging the LGS Board and Investment Committee, the CEO, the CIO and the LGS Investments Team in addition to our external asset consultants, fund managers and investment research providers throughout various stages to raise awareness and increase

knowledge of climate change investment risks and opportunities and seek input into the development of future investment strategies.

In 2013 we commissioned expert research on climate change impacts for our strategic asset allocation because we did not believe that it was adequately captured in the traditional review undertaken by our asset consultant. The work involved using different climate scenarios (such as the World Energy Outlook) and analysing how subsequent climate policy may impact the return and volatility forecasts for each asset class. The analysis resulted in a slight adjustment of our allocation to listed equities, which has had a beneficial impact on overall returns. We are looking at integrating a similar assessment into our next strategic asset allocation process in 2017 using updated scenario analysis that has been published over the last year by various parties including the World Energy Outlook by the International Energy Agency and the IPCC.

We have also developed a carbon risk framework tool that is used in assessing all new investment opportunities. The framework provides an evaluation of magnitude of climate risks (regulatory, physical impact, changing demands, stranded assets, stakeholders) within an asset class and then identifies the approaches that LGS can take to develop an investment hedge or response to these risks. Whilst this tool is useful, it could be better utilised by our investment consultants and our (Board level) Investment Committee when making decisions regarding new investment opportunities. In 2016/17 we are developing an ESG assessment framework which will be applied to all existing and new investments to gauge performance on key issues including climate change. We are also working with the LGS Board to see how we can better incorporate this type of analysis into the investment decision process.

Following these developments, in 2014 we introduced a new set of carbon focused investment restrictions that were applied across our listed equities and fixed income asset classes. In developing these, we looked at the key sources of carbon emissions globally. Once the key sources of carbon emissions had been narrowed down (we determined these to be coal and oil tar sands mining and coal-fired electricity generation), we undertook extensive analysis to identify appropriate revenue thresholds to ensure that our investable universe and risk profile were not dramatically altered. The shortcomings of this approach were that whilst we excluded some very large carbon emitters/sources of carbon emissions, we were not addressing other carbon intensive activities or companies outside these sectors. We were also not addressing the significant impacts of other key sources of carbon emissions such as those from the oil and gas industry.

Having implemented the carbon screens and monitoring the impact they have had on our investment returns and risk profile, in addition to carrying out extensive portfolio carbon audits, we are now in a much better position to identify ways to improve our carbon screens as well as prioritise issues and companies with whom we should engage. Whilst carbon data availability and integrity did not significantly impact our initial development process, the substantial improvement in these areas over the last two years will only add more value to the next stage of our strategy to address climate risks across these and additional these asset classes.

We have not developed carbon reduction or low carbon investment targets at this stage due to a number of reasons including:

- The lack of emissions information for asset classes other than listed equities (and the subsequent resources that would be required to initiate this expansion is not an option for LGS at the present time).
- Questions about how to effectively calculate and communicate carbon impact. We prefer to use the tonnes CO₂e/\$ million invested indicator for assessing actual ownership of (and therefore ability to influence) impact however many other investors in the industry seem to be deferring to intensity indicators which we believe does not provide an accurate assessment of impact. Intensity indicators are useful when comparing and engaging with like

for like companies within the same sector however they do not accurately portray overall impact.

- We have continued to focus on meeting our investment objectives in line with our fiduciary duty (i.e. maximising investment returns) and as part of that process, minimising our exposure to carbon.

We consider climate change to be the greatest risk facing our investment portfolio. We are committed to:

- Managing the risks and taking advantage of the opportunities associated with climate change
- Monitoring the carbon performance of our portfolio and striving for improvements
- Ensuring that climate change risks are considered by our advisors and investment managers
- Ensuring that climate change risks are analysed as part of the due diligence procedures for new investments
- Participating in climate change related collaborative initiatives such as the Investor Group on Climate Change, the Montreal Carbon Pledge and the Portfolio Decarbonisation Coalition
- Communicating our climate change performance and activities to our members.

ESG Integration

As a result of our long term focus on RI, we have developed a number of strategies to facilitate the integration of various ESG factors into the investment process including negative screens, positive screens/thematic mandates and the LGS SRI Overlay. We also integrate ESG considerations into our day to day investment practices, specifically through the selection, appointment and monitoring of external fund managers.

Negative screens

We will not invest in controversial industries and limit our exposure to activities which we view as long term investment risks e.g. fossil fuels, tobacco, weapons and gambling.

We introduced our first investment restriction for tobacco in 2001. Since then we have proactively expanded our [range of restrictions](#) to cover controversial weapons and armaments, gambling, old-growth logging, nuclear energy generation and companies that display a high level of ESG risk. Following internal reviews of climate risks in 2010 and 2013, we introduced an innovative new investment restriction in 2014 to ensure we fully integrate climate risks and the potential impact of stranded assets into our investment decisions. This restriction aims to exclude the companies considered to be the most vulnerable and susceptible to climate change impacts. As a result, we will not make any active investments in companies that derive more than 33% of their revenue of assets from coal mining, coal fired electricity generation and oil tar sands³. This commitment applies to all

³ LGS invests in a number of passive index linked funds where we are not able to implement our investment restrictions. To address this exposure, we short some of the excluded companies using the LGS SRI Overlay, however we are unable to take positions for all excluded companies.

historical and future active investments. In 2015/16 we updated our investment restriction list to cover the MSCI ACWI index, which meant we increased the number of companies excluded under our fossil fuel screen from 27 to 57.

Exclusion	Number of companies
Coal mining	15
Coal-fired electricity generation	33
Oil tar sands mining	9

Following a positive response from the industry and members, we are currently looking at expanding the investment restriction on fossil fuels to cover more companies by lowering the revenue threshold or expanding the carbon intensive activities covered by the screen. Further analysis needs to be undertaken to examine the effects that this would have on our investable universe, the risk profile and potential impact to member returns.

In 2016/17 we will also introduce a new 100% fossil fuel free investment restriction for our Sustainable Australian Shares investment option, meaning no investments in companies that derive any of their revenue from fossil fuel extraction and/or consumption.

Positive screens

We seek out investment opportunities that have a positive environmental and/or social impact on society e.g. renewable energy generation, recycling and sustainable agriculture.

In addition to applying our negative screen on fossil fuels across the fund, we also have over \$770 million of low carbon investments across a range of asset classes including:

- International listed equities – We invest in a mandate where all companies must derive 50% of revenue from resource efficiency and environmental markets e.g. renewables, waste management, energy and water efficiency and sustainable agriculture – with returns at 11.5% p.a. since 2010.
- Fixed interest – We have two green bond mandates across Australian and global corporate and government bonds with investments in green property, energy efficiency and renewable energy generation – our global government bonds have returned 6.38% p.a. since 2012.
- Private equity – We invest in a clean technology mandate covering renewable energy technologies and generation.
- Property – We have an internally managed green property portfolio that achieves a 5 star GRESB rating and an average 6 star NABERS Energy rating (market leading performance).

LGS low carbon investments

Manager	Asset class	Details	AUD
Intrinsic Investment Management - Sustainable Australian Shares	Listed equities	100% fossil fuel free actively managed ASX mandate	\$ 14,748,697
Impax Asset Management	Listed equities	International	\$ 75,590,320

		mandate where companies must generate more than 50% of their revenue from resource efficiency and environmental markets	
Local Government Property Fund	Direct property	Green property fund	\$ 434,228,791
GPT	Property	Green property fund	\$ 38,173,135
Investa	Property	Green property fund	\$ 30,000,000
AMP Capital	Fixed income	6.5% allocation to green bonds	\$ 47,325,469
Omega Global Investors	Fixed income	12% allocation to green bonds	\$ 24,595,030
Attunga Capital	Absolute return	Environmental markets	\$ 63,578,111
Stafford Private Equity	Private equity	Clean technology fund	\$ 41,523,748
IFM Investors	Infrastructure	2% allocation to renewables	\$ 2,054,129
TOTAL			\$ 770,817,429

LGS is continuously looking for innovative new investment opportunities and processes that enable us to expand our low carbon investments. In 2015/16 we met with 25 fund managers to explore additional low carbon investment opportunities. As a result we increased our allocation to low carbon opportunities through the expansion of our investment in green bonds and infrastructure.

SRI overlay

We short sell or replace stocks when our fund managers are unable to direct funds away from controversial or high risk companies through investments in co-mingled trusts.

Our internally managed SRI Overlay involves shorting companies that are on the LGS exclusion list and taking out long positions in companies that have sound investment and positive ESG profiles. The Overlay is applied to all excluded companies with a market capitalisation greater than 0.1% of the benchmark, with the current portfolio consisting of several companies excluded under our fossil fuel screen, in addition to others excluded for involvement in controversial or high ESG risk activities.

Total value added by the LGS SRI Overlay since 2004 = >\$14 million

Investment practices

We monitor our investments for ESG risks and engage with our fund managers and advisers on how to integrate into the investment process.

We employ external fund managers to manage the majority of our investments. To ensure that external managers are fulfilling our fiduciary duty, we integrate climate risks and opportunities, into the selection, appointment and monitoring processes including:

- Selection – When looking to appoint new external fund managers, we assess their approach to climate change to ensure that they are aware of the risks and opportunities and incorporate these into their investment decision making process. We also assess whether or not they have the ability to implement our negative screens, including for carbon.
- Appointment – Clauses covering investment restrictions and carbon and ESG reporting requirements are included in all new investment management agreements (IMAs) with external fund managers.
- Monitoring – We monitor our investment portfolios to measure ESG and carbon performance and to ensure that our managers are adhering to the LGS SRI Policy (including compliance with our investment restrictions). Our external investment managers and asset consultants are very aware of our commitment to RI, which is contained in IMAs and reinforced at face to face meetings. It is essential that the managers demonstrate at least moderate capabilities in this field (and be receptive to engagement with LGS) in order to remain in the role. This acts as a strong 'incentive'. LGS has previously terminated mandates with external managers due to climate change issues as the investment approach eventuated in being much more carbon intensive than the thematic that LGS had expected. LGS' internal managers (for listed equities and property) both have a strong mandate to reduce the fund's exposure to climate risks through shorting high carbon stocks and ensuring our properties undergo climate risks assessments and are highly energy and water efficient.

Carbon portfolio audits – Every six months we assess our listed equity managers on the carbon performance of the companies in their portfolios. We monitor our exposure to fossil fuel intensive companies to better understand carbon risks and opportunities and determine future restriction thresholds and engagement priorities. These reports focus on our total carbon footprint based on ownership of companies (i.e. tonnes CO₂e/\$ million invested and total CO₂e), but also provide intensity measures (i.e. tonnes CO₂e/\$ million sales) to enable us to compare companies within the same or similar sectors. A summary of the results of these audits is published on the [LGS website](#).

Carbon footprint performance⁴:

- **Australian equities = 4.5% below the MSCI Australia index**
- **International equities = 9.5% below the MSCI World (ex. Australia) index**

⁴ As at 30 June 2016 for developed market investments. LGS uses tonnes CO₂e/\$ million invested as our carbon footprint indicator to enable comparison across our external fund managers and with other investors and benchmarks. Tonnes CO₂e/\$ million invested sums the Scope 1 and Scope 2 carbon emissions for companies within each manager's portfolio, then divides this by the size of the investment mandate to enable like for like comparisons.

LGS utilises a range of tools to assess carbon performance including:

1. Traditional performance monitoring that tracks returns relative to mainstream benchmarks and monitors performance of stocks that have been excluded under LGS screens.
2. Carbon audits that track LGS performance relative to mainstream and carbon optimised benchmarks. LGS receives six monthly audits of the carbon risk profile of our equity portfolios and benchmarks from MSCI ESG Research. We also calculate carbon emissions from our direct property portfolio and internal operations.
3. Total percentage of portfolio invested in low carbon activities (incl. renewable energy, energy and water efficiency, waste management, green property etc.).
4. Integration of climate change into the strategic asset allocation review process to assess current and future climate risks and opportunities

These measures help LGS to understand their carbon risks relative to the benchmarks and assist in answering the following questions:

- How are LGS Australian and international equities portfolios' carbon footprints positioned relative to their benchmark? Could this be a reason for relative out/under performance?
- Are there any particular sectors that have particularly large carbon footprints? If so what are the potential responses?
- Do any of our external managers have particularly high or low carbon footprints? If so what are the reasons? Does this represent an engagement opportunity? Are the managers well-informed on carbon risks?
- Are LGS' low carbon thematic allocations actually low carbon?

Active ownership

At LGS we take our responsibility as a shareholder seriously. We are committed to being an active owner of our investment and believe that by working with the superannuation industry and engaging with companies on ESG issues, we can minimise potential risks across our investment portfolio, maximise investment returns and make a difference to society.

Company engagement

We actively engage with companies about ESG issues, particularly climate change risks and opportunities through one-on-one meetings, briefings, phone calls and letters.

To help minimise risk and promote long term shareholder value, we engage with the companies in which we invest through a variety of channels, including direct engagement with company board members and senior executives, via fund managers and through our involvement in industry groups and associations. By engaging with companies we aim to increase executive awareness and instigate action on climate risks and opportunities that may impact company operations, now or in the future.

22 direct engagements – 10 of which focused specifically on climate risks and opportunities (where LGS were the key proponents in raising climate related issues)

190 engagements conducted on our behalf by our partners – 19 of which covered climate change risks and opportunities in detail

Climate related issues addressed:

- Disclosure
- Management risk
- Scenario planning
- Climate change policy and support for lobbying organisations

Key outcomes from engagement:

- Increased disclosure on climate scenarios and company capabilities
- Clarification on internal climate change policy and support for lobbying organisations
- Increased transparency on exposure to high risk sectors
- Increased number of companies undertaking internal scenario planning and development of risk mitigation plans
- Increased Board awareness of the need for action and integration into business strategy
- Increased engagement from companies with investors on climate risks and opportunities

Proxy voting

We vote at shareholder meetings for the companies in our portfolio and publish our decisions before the meetings to ensure transparent voting practices at www.lgsuper.com.au/proxyvoting.

- Australian listed companies – we source external advice from proxy advisors before assessing each resolution and undertaking voting directly.
- International listed companies – we utilise our proxy advisors SRI guidelines and voting service for voting on international company resolutions.

Across our Australian and international listed equities portfolio we supported 22 out of the 26 climate related resolutions in 2015/16 covering scenario planning, strategy, reporting, policy risk, expertise on the board, policy and commitment and carbon reduction targets.

Key resolutions that we supported for Australian companies included requesting climate change scenario planning for Origin Energy Ltd (one of Australia's largest energy generators) and climate change reporting for Rio Tinto Ltd. Whilst we did not support the resolution on carbon reporting and reduction targets put to the Australia & New Zealand Banking Group Ltd (as a result of a commitment from the organisation to continue current reporting and further enhance disclosure), we directly engaged with the company to understand more about their lending profile and exposure to fossil fuel intensive activities, with a view that they should enhance their transparency about current and future lending. In previous years we have co-filed climate related resolutions for BP plc and Royal Dutch Shell Ltd and nominated a climate expert to the Board of BHP Billiton to ensure that they are able to manage climate risks and opportunities across their assets. Since our engagement with these companies, we are encouraged to see that they have significantly improved their climate risk analysis and disclosure, which will enable us to engage in more depth about their future plans to operate in a carbon constrained world.

Industry collaboration

We work with the superannuation industry to advocate for change on environmental, social and governance risks across industries.

One of the key responsible investment strategies that we utilise is collaboration with other investors. We provide significant resources (including active participation) to industry initiatives and groups to advocate for change on environmental, social and/or governance risks across different industries. Recent collaboration efforts have focused almost entirely on climate change, particularly on how the Australian Government intends to lead the way for change and how our investee companies are managing climate risks.

LGS is a member and an active participant in the following initiatives:

- United Nations Environment Programme Finance Initiative (UNEPFI):
 - Portfolio Decarbonisation Coalition – we now have over AU\$770 million invested in low carbon opportunities across a range of asset classes.
- Principles of Responsible Investment (PRI):
 - Montreal Carbon Pledge – We disclosed the carbon footprint for our listed equities portfolio in line with our commitment under the Montreal Carbon Pledge. This was subsequently selected by Novethic as one of the top 12 best practice examples globally.
 - Lead participant in climate change strategy project – completed in early 2016 with an aim to facilitate greater action on climate risks and opportunities by institutional investors.
 - Signatory to the Investor Expectations on Corporate Climate Change Lobbying statement that is used to engage corporates on climate change policy
 - Participant in the Sustainable Palm Oil Investor Working Group
- Investor Group on Climate Change (IGCC) and Global Investor Coalition (GIC):
 - Management Committee – This Board level committee oversees the operation of the IGCC and sets the annual work plan/focus areas for the working groups, which include:
 - Low Carbon Finance Working Group – this working group is focusing on:
 - Developing a roadmap for low carbon finance
 - Engaging with green finance bodies and Climate Bonds Initiative
 - Providing a forum for sharing expertise and insights on emerging best practice.

- Property Working Group - this working group is focusing on:
 - Developing a zero emissions roadmap for the Australian property sector
 - Investigating development of a guide for increasing investment in renewables in the property sector.
 - Policy Working Group - As a result of our participation in this working group we engaged with Australian policymakers and regulators during 2015/16 on a range of issues including:
 - Climate policy and priorities for Australia
 - Carbon and energy pricing
 - National reduction targets
 - Structure of national emissions reduction program
 - Funding for emission reductions projects
 - Carbon risk disclosure.
 - Disclosure Working Group – this working group is focusing on:
 - Assessing current climate disclosure standards to identify best practice guidance for investors
 - Developing a framework/guidance for investor disclosure.
 - Adaptation Working Group – this working group is focusing on:
 - Reviewing adaptation policy in Australia
 - Developing a heat map that identifies most at risk sectors (to adaptation)
 - Reviewing how investors are integrating adaptation risk into investment processes
 - Investigating opportunities for adaptation financing and bonds.
 - Signatory to the Investor Statement on Climate Change (pre Paris COP)
 - Signatory to the Paris Pledge for Action (post Paris COP)
- Australian Council for Superannuation Investors (ACSI):
 - Board – The Board sets the priorities for the annual work plan, one of which is engaging on climate risks with ASX listed companies.
 - Member Council – As a member of ACSI we provide feedback on the work plan and priorities through also participating in the Member Council.
 - Company engagement meetings – ACSI organises approx. 400 engagement meetings with ASX listed companies throughout the year. We participate in a number of these meetings to ensure that, where appropriate, climate risks and opportunities are discussed with Board chairmen and directors and that any concerns we have about these can be addressed by the company.
- Responsible Investment Association Australasia (RIAA):
 - Corporate engagement working group – Through this group we have been contributing to the development of a plan to engage ASX listed fossil fuel companies in ‘Aiming for A’ style resolutions on climate risks and opportunities.
 - Responsible investment certification assessment panel – As a member of this panel we review superannuation funds RI programs and investment options (including low carbon options) seeking ‘responsible investor’ certification.
- Climate Bonds (within green bonds) – we are an active supporter of the Climate Bonds initiative and regularly present and participate in their events when held in Australia with an

aim to increase awareness about opportunities and encourage greater take up by Australian investors.

Property:

- Global Real Estate Sustainability Benchmark (GRESB) – As a member of GRESB, we participate in their annual benchmarking survey for our direct property portfolio. In 2015/16 we achieved the top 5 star rating for our approach to implementing sustainability across the 8 properties that we own directly.
- Green Building Council of Australia (GBCA) – As a member of the GBCA, we participate in industry events focused on property sustainability. In 2015/16 we initiated undertaking the world leading Green Star Performance portfolio rating for our direct property portfolio that will provide us with an overall score for the operation of our buildings in addition to identifying areas for improvement.
- GreenPower certification – We purchased 100% renewable energy for our head office operations as well as for all base buildings of our direct property portfolio. We also include a clause in our property leases requiring tenants to purchase 100% GreenPower for all of their electricity needs. In 2015/16 we achieved a compliance rate of 85% (we target a minimum of 80%).

Transparency

We disclose comprehensive information about our responsible investment practices to raise awareness about how we manage our members' retirement savings.

At LGS, the majority of internal and external communication on RI issues, including climate change risks and opportunities is undertaken by the CEO and the two sustainability professionals within the Investment Team. The LGS Marketing Team work closely with the Investment Team to develop cohesive messaging about our RI activities and then disseminate this to our members and other external stakeholders. The Investment Team also engage regularly with the LGS financial planners and client relationship managers to ensure that they are up to date on our RI activities and approach to managing climate risks and opportunities.

During 2015/16 the LGS Board and Investment and Marketing teams undertook the following activities to engage internal and external stakeholders about our RI program, including our approach to managing climate risks and opportunities:

- Internal:
 - Staff presentations – The Investments Team gave a series of presentations on the LGS RI program to other internal teams including financial planners, client relationship managers and contact centre staff to ensure that if and when members ask about our activities in this area, they are appropriately briefed and able to provide accurate information. These presentations occur on a quarterly or six-monthly basis depending on the team and availability of staff.
 - Staff newsletter – We include content about our climate change related activities and low carbon investments in the bi-monthly staff newsletter to ensure staff are informed of our positive action in this area.
 - Corporate sustainability program – We introduced a new corporate sustainability policy and annual action plan to increase staff engagement on sustainability initiatives including reducing our operational footprint. The annual

action plan is developed and overseen by the LGS Corporate Sustainability Committee which meets on a quarterly basis.

- External:
 - Industry presentations – LGS Board members, senior executives and sustainability professionals presented at a large number of industry events in Australia and overseas throughout the year on a range of topics including green bonds, climate risks and opportunities for investments, green property and climate risk tools with an aim to increase awareness amongst other investment practitioners about the positive low carbon options currently available on the market and additional work that needs to be initiated globally.
 - Sustainability marketing campaign – The LGS Marketing Team ran our first member engagement and acquisition campaign using our sustainability credentials (including our activities on climate change). This campaign was very successful and will continue throughout 2016/17.
 - Member presentations – The LGS Investment Team and client relationship managers presented to our members throughout the year on our broad approach to RI and how we are addressing climate change risks and opportunities across the investment portfolio.
 - Member newsletters – We regularly include content on our RI approach and climate activities in member newsletters, which are issued twice a year in conjunction with their performance statements. In 2015/16 we profiled the installation of solar panels on a number of our retail properties in addition to offering members discounted membership for car sharing services (to help reduce car ownership and overall carbon emissions) in which we have a private equity stake.
 - Media releases – In 2015/16 we issued 4 media releases that specifically profiled our climate related activities. Our responsible investment program and climate change activities garnered over 1,000 media mentions throughout the year.
 - Direct member engagement – We receive regular enquiries from our members on a range of climate change issues including fossil fuel exposure and low carbon investments. We make it a point to provide tailored responses to all members to ensure that their feedback and questions are appropriately addressed.
 - Website – We continue to have a strong focus on transparency and provide extensive information on our RI program and climate activities on the LGS website at <https://www.lgsuper.com.au/investments/sustainable-investment/>.

Key achievements:

- A+ for our overarching approach to RI by the PRI
- No.1 in Australia and no.2 globally in 2016 Asset Owner Disclosure Project Global Climate 500 index for our approach to managing climate risks and opportunities
- 89 enquiries from members about sustainability issues – 78 of these were in regards to climate related issues
- 1,018 media mentions for our work on RI – 529 of these were positive coverage on our climate related activities
- 4 time winner of Money magazine's Best Green Super Fund award

Whilst we have carried out extensive communications and engagement activities both internally within LGS and externally with our members and other stakeholders, we acknowledge that we still

have much more work to do to improve their awareness and understanding about our approach to managing ESG risks, particularly in regards to climate change. In 2016/17 we plan to increase the number of our financial planners and client relationship managers undertaking the PRI Academy to help enhance their base knowledge of ESG issues including climate risks and opportunities for investments. We will also continue to directly engage with LGS staff about our approach to managing climate risks and opportunities across the various asset classes in our portfolio. We have identified the need to 'de-jargonise' some of our communications to ensure that the messaging is clear and effective and easily repeated to our members.

In regards to our members, whilst concern in where their money is being invested is definitely increasing, we face a general lack of interest from the majority of our members in where and how their retirement savings are being invested. We are conscious of this and are constantly trying to find new and innovative ways to engage them e.g. in 2015/16 we developed a small booklet that contained messaging about our responsible investment approach and included some native Australian seeds for members to plant in their gardens. There is also increasing awareness across Australia about the need to improve financial literacy (and subsequent engagement in financial management) amongst the general population, something which we are very conscious of and looking at ways to address.

In addition to the responsible investment practices that we have integrated into our investment process, we also offer a fossil fuel free investment option (Sustainable Australian Shares) should our members be interested in further integrating climate change factors into how their retirement savings are invested. We are also investigating providing fossil fuel free or low carbon investment options via our DIY platform where members have the ability to individually select stocks and/or index based funds to invest in.