

LGS Proxy Voting and Engagement Report

December 2020

Philosophy

At Local Government Super (LGS) we take our ownership responsibility as a long-term shareholder seriously. We are committed to being an active owner of our investments and believe that engaging with companies on environmental, social and governance (ESG) issues can help mitigate potential risks across our investment portfolio.

Voting responsibly helps us fulfill our obligation to provide strong long-term returns for our members while also having a positive impact on the community.

The following report highlights our proxy voting activities for the six months from 1st July to 31st December 2020. Our complete proxy voting record including reasons for voting against resolutions and our Proxy Voting Policy are available on our website.

Voting Policy Summary

LGS uses proxy advisors to guide our voting at shareholder meetings. We are advised by the Australian Council of Superannuation Investors (ACSI) for our Australian investments and CGI Glass Lewis for our international investments.

ACSI and CGI Glass Lewis analyse the financial, environmental, social and governance performance of listed companies and make voting recommendations based on corporate governance best practice. LGS takes ACSI and CGI Glass Lewis' recommendations as well as company engagement outcomes into consideration when voting.

Occasionally, LGS may vote against our proxy advisors' recommendations when we believe significant ESG issues may impact our investment portfolio.

LGS Australian Portfolio Overview

100%

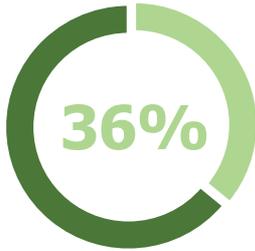
of Meetings Voted

146

Meetings

823

Resolutions Voted



of Meetings with
Votes Against

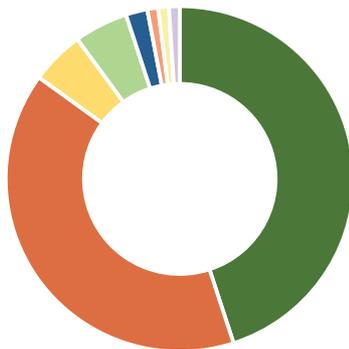


of Resolutions
Voted Against

When determining voting recommendations, our proxy voting advisors take into account a broad range of factors including the materiality of the ESG issue, how long the issue has been a concern, previous dialogue with the company and improvements in company behaviour.

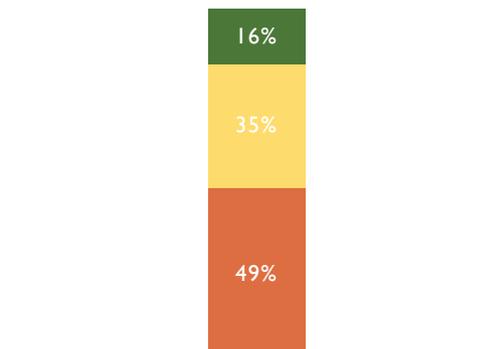
In the Second-Half of 2020, we voted against 95 resolutions from 53 Australian companies for reasons including insufficient board independence, inappropriate remuneration and insufficient performance hurdles.

Meeting Resolutions by Category



■ Board Related	45%	■ Compensation	40%
■ Capital Management	5%	■ Changes to Company Statutes	5%
■ Shareholder Proposals	2%	■ Audit/Financials	1%
■ Other	1%	■ M&A	1%

Against Votes by Category



% Against Votes

■ Shareholder	16%
■ Board Related	35%
■ Compensation/Capital Mgmt.	49%

Say-On-Pay Resolutions

14%

of Votes against Compensation Proposals

LGS takes into consideration various factors when deciding on advisory votes relating to executive compensation. These considerations include, but are not limited to, business ethics, company performance, remuneration structure, remuneration practice and total shareholder return (TSR) over multiple reporting periods.

In the Second-Half of 2020, we voted against 14% of Pay Resolutions for reasons including pay & performance disconnects, inappropriate compensation structures and insufficient disclosures.

Company Engagement

To promote long-term shareholder value and mitigate risk, LGS actively engages with the companies in which we invest via our fund managers and through our involvement with ACSI, the Responsible Investment Association Australasia (RIAA) and the Investor Group on Climate Change (IGCC).

Through our engagement, we aim to increase climate change awareness, improve governance standards and encourage greater disclosure.

Board Diversity

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Votes to Improve Female Representation on Boards

LGS is committed to promoting gender diversity given we believe that better gender balance leads to superior board quality and outcomes. LGS endorses the target that 30% of board seats should be held by women. LGS will consider, on a case-by-case basis, voting against members of boards with poor gender diversity.

In the Second-Half of 2020, we voted against 3 director appointments from 3 Australian companies with a lack of female representation on boards to signal a need for improvement.

Case Study: Ensuring Appropriate Remuneration During the COVID-19 pandemic

In the second-half of 2020, LGS voted against the remuneration report of a mid-cap automotive aftermarket parts distribution company. LGS voted against the remuneration report following the board's decision to lower performance hurdles when the targets were not met and pay bonuses in cash. The bonuses occurred against a backdrop of challenging market conditions, significant government subsidies (Jobkeeper), workforce resizing and disruption, obtaining rent relief from landlords and undertaking a significant capital raising.

The company received a massive 57% vote 'Against' its remuneration report which constitutes a 'First Strike'. A 'Board Spill' resolution will be voted on if the company receives a 'Second Strike' against its remuneration report at the next AGM.

LGS International Portfolio Overview

100%

of Meetings Voted

97

Meetings

1086

Resolutions Voted



55%

of Meetings with
Votes Against



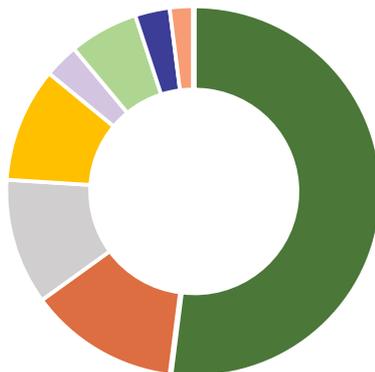
11%

of Resolutions
Voted Against

When determining voting recommendations, our proxy voting advisors take into account a broad range of factors including the materiality of the ESG issue, how long the issue has been a concern, previous dialogue with the company and improvements in company behaviour.

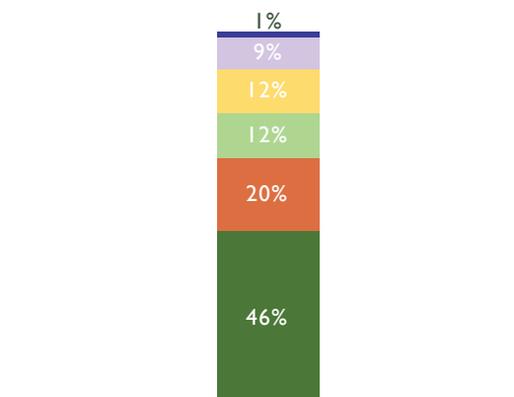
In the Second-Half of 2020, we voted against 117 resolutions from 53 international companies for reasons including insufficient board independence, inappropriate remuneration and pay/performance disconnect.

Meeting Resolutions by Category



Board Related	52%	Audit/Financials	13%
Compensation	11%	Capital Management	10%
Other	3%	Changes to Company Statutes	6%
Shareholder Proposals	3%	Meeting Administration	2%

Against Votes by Category



% Against Votes	
Board Related	46%
Audit/Financials	20%
Compensation	12%
Routine/Admin	12%
Shareholder	9%
Capital Management	1%

Say-On-Pay Resolutions

11%

of Votes against Compensation Proposals

LGS takes into consideration various factors when deciding on advisory votes relating to executive compensation. These considerations include, but are not limited to, ESG performance, company performance, remuneration structure, remuneration practice and total shareholder return (TSR) over multiple reporting periods.

In the Second-Half of 2020, we voted against 11% of Pay Resolutions for reasons including pay & performance disconnects, inappropriate compensation structures and insufficient disclosures.

Board Independence

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Votes to Improve Board Independence

LGS is committed to promoting greater board independence as we believe this leads to superior board quality and outcomes. LGS will consider, on a case-by-case basis, voting against members of boards with poor board independence.

In the Second-Half of 2020, we voted against 41 director appointments for companies with a lack of majority board independence to signal a need for improvement.

Proxy Voting in International Markets

LGS engages CGI Glass Lewis to undertake proxy voting for international companies in accordance with our proxy voting policy and ESG guidelines. This includes companies from over 40 different countries with the largest markets listed below.

- United States
- Japan
- United Kingdom
- Germany
- Canada
- France
- Netherlands
- Sweden
- Switzerland
- Ireland
- Bermuda
- Norway
- Italy
- Spain
- Denmark
- Finland
- Austria
- Brazil
- Belgium
- Korea, Republic of
- Singapore
- Cayman Islands

Proxy Voting Highlights

The following table provides a snapshot of our 'against' votes that were a result of the presence of significant ESG issues in the LGS International Portfolio.

Company	Resolution	Voting Rationale
Oracle Corp. Resmed Inc. Ralph Lauren DXC Technology Copart, Inc. Bed, Bath & Beyond	Remuneration report and executive compensation packages.	We voted against these due to concerns there was a disconnect between pay & performance and concerning remuneration practices.
Bellway plc Aena S.M.E. S.A. New World Development Co Fast Retailing Co Pernod Ricard	Board of Directors re-election.	We voted against these as boards of these companies were not sufficiently independent or there was no independent lead or presiding director.
Daimler AG KLA Corp. HSBC Holdings Steris Plc Adidas AG Microsoft Corporation	Ratification of Auditor	We voted against these due to concerns that excessively long auditor tenor could compromise auditor independence.