
NSW Treasury

State Investment Funds ESG Framework Review

Terms of Reference

04 April 2022

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Acknowledgement of Country

The NSW Treasury acknowledges that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history.

We pay respect to Elders past and present and commit to respecting the lands we walk on, and the communities we walk with.

We celebrate the deep and enduring connection of Aboriginal and Torres Strait Islander peoples to Country and acknowledge their continuing custodianship of the land, seas and sky.

We acknowledge the ongoing stewardship of Aboriginal and Torres Strait Islander peoples, and the important contribution they make to our communities and economies.

We reflect on the continuing impact of government policies and practices, and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples, families and communities, towards improved economic, social and cultural outcomes.

Artwork: 'Regeneration' by Josie Rose

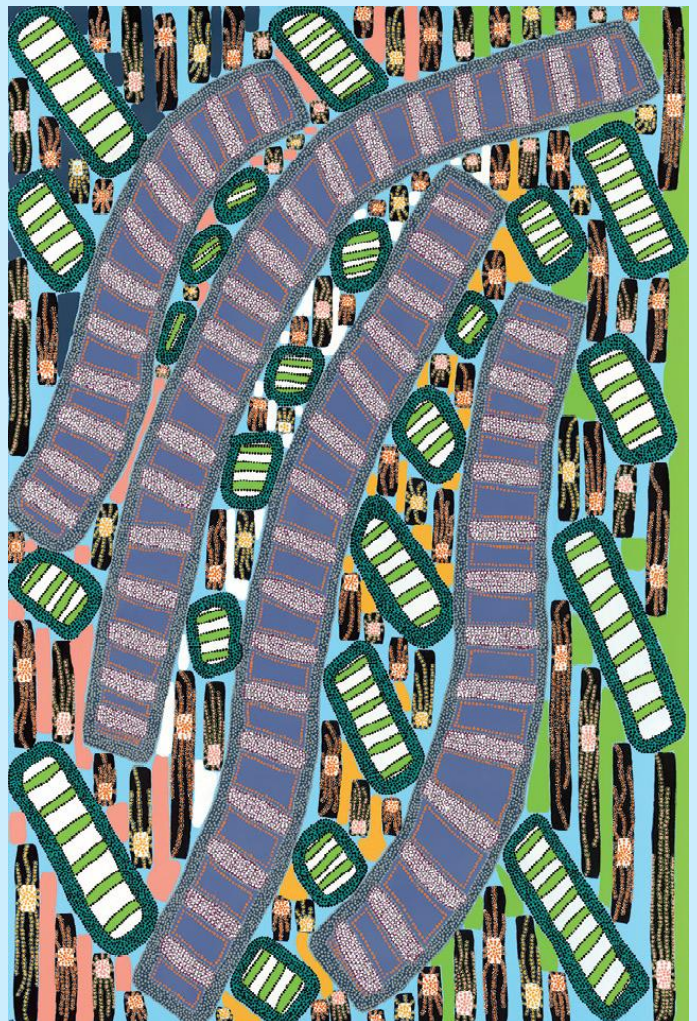


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In Scope Matters

The review will focus on State Government funds managed by NSW Treasury Corporation (TCorp) on behalf of NSW Government entities, unless elsewhere excluded.

1. Assess leading practice ESG investment management principles, approaches and practical considerations

This part of the review will assess:

- (a) What is meant by ESG investing
- (b) Why ESG matters
- (c) Practical considerations regarding ESG investing:
 - a. Role in long-term investment decision-making
 - b. Using ESG approaches to improve risk-adjusted returns
 - c. Position of financial regulators, including APRA and the RBA
 - d. Limitations
- (d) Assessment of ESG investing approaches, including:
 - a. Integration
 - b. Exclusions
 - c. Impact Investing
 - d. Thematic investing
 - e. Engagement and active ownership
 - f. Other relevant principles or approaches
- (e) International developments and learnings
- (f) What leadership in ESG investing looks like

2. Examine current management of NSW Government funds with respect to ESG principles

This part of the review will examine:

- (a) TCorp's current Investment Stewardship approach:
 - a. Application to TCorp managed investment funds
 - b. Application to investment managers
 - c. Application to real assets
 - d. Practical Implementation, including:
 - ii. Approaches
 - iii. Governance
 - iv. Capability
 - v. Processes
 - vi. Measurement and evaluation
- (b) Comparison of TCorp's approach to leading practice approaches and peers
- (c) Governance arrangement across TCorp managed investment funds, including any impediments to the implementation of a consistent leading-practice ESG approach across funds
- (d) Alignment with government policy and intent

3. Provide recommendations for Improvement – building a better future

- (a) Moving from current practice to leading practice
 - (b) Strengthening the nexus between the incorporation of ESG factors into investment activities and meeting long-term, sustainable risk and return objectives
 - (c) Implementation steps, including alignment of governance arrangements across NSW Government entities
 - (d) Measuring and monitoring progress and performance
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Out of Scope Matters

This review will not consider the following:

- (a) Funds managed by other State Government entities on trust for private beneficiaries (e.g. those funds managed by NSW Trustee and Guardian and State Super (Defined Contribution component only))
 - (b) Investments in State Owned Corporations
 - (c) The Government's broader expenditure (i.e. recurrent and capital) program
 - (d) Asset resilience
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Review approach

- The Review will be conducted by the Independent Reviewer with appropriate skills and background.
 - The Review's focus will be on identifying gaps between current practice and leading practice and identifying recommendations for improvement, or otherwise identifying where TCorp is already undertaking a leading approach.
 - Input from major clients and other stakeholders will inform the Review
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Methodology

- The Review will be carried out on the assumption of cooperation and full disclosure from the parties involved.
 - The Review activities will be determined by the Independent Reviewer and are expected to include the following:
 - Desktop review of the literature regarding ESG investment management practices and related considerations
 - Interviews by the Independent Reviewer (supported by the Review Team) with representatives from TCorp and other stakeholders
 - Commissioning of external expert advice on specific topics, for consideration by the Independent Reviewer
 - Other activities as the Independent Reviewer thinks necessary to appropriately complete the review
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Output

- The review will produce a report to the Treasurer outlining its findings and recommendations with respect to the above terms of reference.

Timing

- It is expected that the review will take around 6 months and be completed by end-October 2022.

Roles and Responsibilities

Independent Reviewer

- The review will be undertaken by Ms. Pru Bennett of Bened Pty. Ltd.

Review Team

- The Independent Reviewer, in consultation with NSW Treasury, will determine the level of support required. The Independent Reviewer will have available to them:
 - A Review Team comprised of staff from NSW Treasury
 - Additional support and resources as required, such as external expert advisors.

Role of TCorp

- As this will be an independent review TCorp has not been consulted on the terms of reference nor will they form part of the Review Team.
- However, TCorp will be a key contributor and will be consulted throughout the review.

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