

ESG Review – Government’s Response to the Review’s Recommendations

Section 1: Key Review Recommendations

Recommendation 1	Response: Recommendation accepted
<p>Given the NSW State Government’s stated 2050 net zero ambition (including a 50% reduction in greenhouse gas emissions versus 2005 levels by 2030), it is appropriate for TCorp to develop a comprehensive approach to support its clients on their respective decarbonisation/net zero journeys. TCorp has already made progress in this area, having worked closely with STC on its recently established net zero strategy. It is recommended that TCorp leverage progress made to date to integrate decarbonisation support services across the range of its investment management portfolios.</p> <p>Report Section: 3.2</p> <p>Theme: Decarbonisation/Net Zero</p>	<p>TCorp will consult with its clients to ensure effective implementation and alignment with the Government’s broader net zero target.</p>
Recommendation 2	Response: Recommendation accepted
<p>TCorp to make public annually a comprehensive separate report on its investment stewardship activities</p> <p>Report Section: 3.2</p> <p>Theme: Reporting and Transparency</p>	<p>TCorp will consider existing and emerging reporting frameworks such as those of the Task Force on Climate-Related Financial Disclosures and the International Sustainability Standards Board to develop appropriate reporting.</p>
Recommendation 3	Response: Recommendation accepted
<p>Should NSW Government take a stance on a particular ESG issue, it is recommended for the Treasurer to seek dialogue with TCorp to assess and address any conflicts as well as practical issues regarding implementation.</p> <p>Report Section: 3.2</p> <p>Theme: Whole-of-Government Governance</p>	<p>A key pillar to providing appropriate guidance will be the development of a Statement of Expectations, consistent with Treasury’s <i>Ownership and Portfolio Expectations Policy</i> (TPG22-02).</p>

Section 2: Other Review Recommendations

Recommendation 4	Response: Recommendation accepted
<p>Consider establishing an appropriate forum for TCorp and its key clients to improve interactions and information sharing at the strategic level to develop common approaches (where appropriate) to responsible investing across relevant portfolios.</p> <p>Report Section: 3.5</p> <p>Theme: Whole-of-Government Governance</p>	<p>This recommendation will be implemented through the Sustainable Finance Steering Committee that is represented by appropriate stakeholders. Additional oversight will be provided by Treasury's Asset and Liability Committee (ALCO).</p>
Recommendation 5	Response: Recommendation accepted
<p>TCorp's ESG Working Group to update the Treasury-led Sustainable Finance Steering Committee twice a year on emerging ESG trends.</p> <p>Report Section: 3.5</p> <p>Theme: Whole-of-Government Governance</p>	<p>Recommendation to be implemented in full.</p>
Recommendation 6	Response: Recommendation accepted
<p>TCorp's annual report to include such a skills matrix which would also identify ESG skills of directors to demonstrate the Board has the capabilities to discharge its oversight duties with respect to investment stewardship.</p> <p>Report Section: 7.2.5</p> <p>Theme: TCorp-specific Governance</p>	<p>TCorp will implement as appropriate and advise the Treasurer on progress.</p>

<p>Recommendation 7</p> <p>Establish a continuing professional development plan available to all directors covering relevant ESG issues to keep directors informed of the changing ESG landscape, including how TCorp compares with leading peers.</p> <p>Report Section: 7.2.5</p> <p>Theme: TCorp-specific Governance</p>	<p>Response: Recommendation accepted</p> <p>TCorp to implement as appropriate and advise the Treasurer on progress.</p>
<p>Recommendation 8</p> <p>For large transactions referred to the Board Investment Committee (BIC), develop a template suitable for assessing investment opportunities and risks for investments in significant real assets, which includes a dedicated section for investment stewardship. Such a process will ensure a consistent consideration of relevant matters, including ESG risks and opportunities and bring the BIC assessment process into line with other investment functions.</p> <p>Report Section: 7.2.5</p> <p>Theme: TCorp-specific Governance</p>	<p>Response: Recommendation accepted</p> <p>TCorp to implement as appropriate and advise the Treasurer on progress.</p>
<p>Recommendation 9</p> <p>To build out investment stewardship knowledge across investment teams, develop a program to offer teams structured and ongoing professional development on investment stewardship topics.</p> <p>Report Section: 7.3.6</p> <p>Theme: Resourcing Capability</p>	<p>Response: Recommendation accepted</p> <p>TCorp to implement as appropriate and advise the Treasurer on progress.</p>

<p>Recommendation 10</p> <p>Resourcing should be monitored on a regular basis in terms of human resources as well as technology requirements. Particularly in relation to the latter, sources of data are increasing, with both the quality and currency of data continuing to improve, providing opportunities for TCorp stewardship activities.</p> <p>Report Section: 7.3.6</p> <p>Theme: Resourcing Capability</p>	<p>Response: Recommendation accepted</p> <p>TCorp to implement as appropriate and advise the Treasurer on progress.</p>
<p>Recommendation 11</p> <p>The Investment Stewardship Beliefs and Principles and ESG Investment Risk Framework could be better aligned in terms of the five investment stewardship activities identified in the ESG Investment Risk Framework.</p> <p>Report Section: 7.4.6</p> <p>Theme: TCorp’s ESG Investment Risk Framework</p>	<p>Response: Recommendation accepted</p> <p>TCorp to implement as appropriate and advise the Treasurer on progress.</p>
<p>Recommendation 12</p> <p>TCorp should monitor the development of processes and methods to measure environmental and societal impacts in portfolios and consider other forms of measurement to assess the effectiveness of investment stewardship on behalf of clients going forward.</p> <p>Report Section: 7.4.6</p> <p>Theme: TCorp’s ESG Investment Risk Framework</p>	<p>Response: Recommendation accepted</p> <p>TCorp to implement as appropriate and advise the Treasurer on progress. It is noted that robust measurement techniques are currently limited and are expected to evolve over time.</p>
<p>Recommendation 13</p> <p>Incorporate investment stewardship more explicitly in discovery questionnaires and dialogue when developing client investment objectives and risk appetite statements.</p> <p>Report Section: 7.5.6</p> <p>Theme: Application to TCorp Managed Investment Funds</p>	<p>Response: Recommendation accepted</p> <p>TCorp to implement as appropriate and advise the Treasurer on progress.</p>

<p>Recommendation 14</p> <p>Prioritise work to formally integrate ESG, particularly climate change risk and scenario analysis insights) into the portfolio construction process including development of capital market assumptions.</p> <p>Report Section: 7.5.6</p> <p>Theme: Application to TCorp Managed Investment Funds</p>	<p>Response: Recommendation accepted</p> <p>TCorp to implement as appropriate and advise the Treasurer on progress.</p>
<p>Recommendation 15</p> <p>In consultation with stakeholders, develop a transparent framework which guides consideration of material portfolio exclusions (e.g., considerations around potential trade-off of client preferences and risk-adjusted returns over the shorter term) to facilitate collective understanding of both financial and reputational impacts which may result.</p> <p>Report Section: 7.5.6</p> <p>Theme: Application to TCorp Managed Investment Funds</p>	<p>Response: Recommendation accepted</p> <p>TCorp to implement as appropriate and advise the Treasurer on progress.</p>
<p>Recommendation 16</p> <p>Develop asset class specific ESG questionnaires, which are systematically utilised as a part of the pre-investment due diligence process and are aligned with TCorp’s Investment Risk Framework.</p> <p>Report Section: 7.6.6</p> <p>Theme: Application to investment managers</p>	<p>Response: Recommendation accepted</p> <p>TCorp to implement as appropriate and advise the Treasurer on progress.</p>
<p>Recommendation 17</p> <p>Further use the Global Real Estate Sustainability Benchmark (GRESB) process to monitor and drive continuous improvement in the Real Assets and Private Markets (RAPM) portfolio. This could be further enhanced by taking note of the way more advanced peers have effectively used GRESB.</p> <p>Report Section: 7.7.6</p> <p>Theme: Application to real assets</p>	<p>Response: Recommendation accepted</p> <p>TCorp to implement as appropriate and advise the Treasurer on progress.</p>

<p>Recommendation 18</p> <p>Public disclosure of proxy voting statistics for both domestic and international equities on an annual basis.</p> <p>Report Section: 7.8.6</p> <p>Theme: Application to active ownership</p>	<p>Response: Recommendation accepted</p> <p>Such disclosure could occur within an Annual Sustainability Report (per Recommendation 2).</p>
<p>Recommendation 19</p> <p>Enhance the current process for providing voting intentions of controversial meetings to clients before the shareholder meeting noting TCorp and clients would need to agree to a practical process.</p> <p>Report Section: 7.8.6</p> <p>Theme: Application to active ownership</p>	<p>Response: Recommendation accepted</p> <p>TCorp to develop appropriate processes in consultation with its key clients.</p>
<p>Recommendation 20</p> <p>TCorp to consult with key clients and determine the appropriate pathway to achieve net zero across all portfolios by 2050 to align with NSW Government Policy.</p> <p>Report Section: 7.9.5</p> <p>Theme: Decarbonisation/Net Zero</p>	<p>Response: Recommendation accepted</p> <p>Refer to Recommendation 1</p>
<p>Recommendation 21</p> <p>As seen from the review of peers, leading practice involves the publication of an annual stewardship report which demonstrates effective stewardship of assets under management. Such a report would include TCFD-aligned reporting on climate change risks and opportunities.</p> <p>Report Section: 7.10.6</p> <p>Theme: Reporting and Transparency</p>	<p>Response: Recommendation accepted</p> <p>Refer to Recommendation 2</p>