Responsible Investment Guidelines

Section 1 - Purpose

(1) Charles Sturt University's Investment Policy provides as part of its objectives to "adhere to Responsible Investment Guidelines" (Section 3, Part A) and within this, that "investment decisions should reflect the character and values the University upholds for itself".

(2) The Responsible Investment Guidelines have therefore been developed, which will allow Charles Sturt University (the University) to pursue an ethical and socially responsible investment approach informed by the values of the University, whilst minimising any negative impact on its investment returns.

(3) The values of the University are best expressed by the University's motto of being "for the public good" and within the University Strategy with the Wiradjuri phrase, "Yindyamarra Winhanganha", translated as "the wisdom of respectfully knowing how to live well in a world worth living in".

Section 2 - Policy

(4) Refer to the Investment Policy.

Section 3 - Procedures

(5) Nil.

Section 4 - Guidelines

Responsible investment

(6) Responsible investment is incorporated into the fundamental investment selection and management process and integrates environment, social and governance (ESG) principles into the investment methodology in such a manner that ESG is simply part of good investment practise.

(7) While the University has a fiduciary responsibility to maximise returns under its control, to diversify risk and to ensure the funds are efficiently managed, the Responsible Investment Guidelines also incorporate the need to assess and consider any social harm or benefit that might arise through these investment activities.

(8) Responsible investment methodologies may take the following forms:

a. Negative screening – avoiding investment in organisations or industries which have a negative impact on society and the environment, or which may be against the values of the University.
b. Positive screening or impact investment – proactive searching for investments that contribute positively to society and the environment, or which may be consistent with the values of the University.
c. Corporate engagement – dialogue with companies invested in for the purpose of seeking ethical outcomes

including raising issues of concern and advocating positive change to company practices.

(9) Recognising the University's relative investment size and influence in the financial market, the University seeks to take a balanced view of broad ESG investment issues and risks that may impact long-term returns, as opposed to adopting a primary screening approach.

(10) The University operates diversified investment portfolios involving a mix of assets, and a blend of individually managed accounts (IMAs) and managed funds. The majority of assets involve managed funds. With either IMAs or managed funds, the University uses external advisers and provides an agreed mandate. The mandates have a primary objective to prevent investments in activities of concern to the University.

Methodology

(11) It is acknowledged that investment selection incorporating ESG makes the process immensely more complex. The University engages investment advisers to provide expertise in the recommendation and selection of investment opportunities, with consideration to the Responsible Investment Guidelines. The University's advisers, in turn, recommend fund managers and portfolio managers. A fund manager may be responsible for several funds. The portfolio manager operates at the level of specific asset selection and is required to have a detailed knowledge of the individual securities and the risks associated with the portfolio holdings.

(12) The University seeks evidence of ESG capabilities, resources, localised expertise and ability to report on ESG performance by its advisers, fund managers and portfolio managers. This includes contemporary knowledge on international environmental reporting standards and organisational adherence to global compact principles.

(13) Investments may be included or excluded based on how well an investment manages its environmental, social and corporate governance processes. The approach should fairly weight the various aspects of ESG, to encompass attributes of the company itself, materiality (that is, scale) as well as the industry in which it may operate.

(14) With individual stock selections, a reputable, comprehensive and balanced index such as Macquarie Bank's ESG ratings index or the Morgan Stanley Capital International (MSCI) Australian ESG Index may be consulted to avoid stocks that rank low with regard to ESG and to rank higher those that are well regarded against the appropriate index.

(15) In addition, specific screening strategies may be applied based on industry or products as outlined below.

Negative screening

(16) The following industries are areas that the University sees as being in conflict with its values:

a. manufacture of tobacco
b. gambling
c. pornography and prostitution
d. manufacture and distribution of controversial armaments
e. the exploration, development and production of fossil fuels.

(17) Where any of the above activities constitute a material proportion of the business activity or supporting activities and it is known to the University, then investment in these industries is to be avoided.

Specific issues on ESG policies

Environmental

(18) The University is a certified carbon neutral organisation. To manage the University's carbon reporting, advisers and portfolio managers should report on the carbon intensity of their portfolios.

(19) These disclosures are an important component to the University's reporting on its Clean Energy Strategy. This reporting from advisers and portfolio managers should segment and identify companies with interim and net zero Scope 1 and 2 carbon reduction targets by 2030. Interim targets after 2030 should be separately reported.

(20) Advisers and portfolio managers are to report on the setting and implementation of Scope 3 targets in their portfolios.

(21) The University expects its advisers and portfolio managers to seek from its invested companies specific and appropriate disclosures around emissions, targets, risk management and oversight. The University expects to observe improved reporting and reductions in emissions over time from individual corporates.

(22) Whilst carbon intensity is a specifically a critical issue, the University also takes seriously the risks from land, water and air management, pollution and waste, biodiversity and broader environmental issues. These risks require evidence of active management and reporting as part of the investment process.

Social issues

(23) The social issues of the rights of First Nations peoples, human capital, product liability, stakeholder position and social opportunities require active management within the University’s investment portfolios.

(24) The University is a leading advocate for gender equality and expects to observe advisers and portfolio managers applying these standards to its own businesses and in the portfolio invested companies. Hence, the University expects to see comprehensive and effective diversity and non-discrimination policies. This includes regular reviews of hiring and promotion practices to ensure against bias and to set ambitious targets appropriate to the business.

(25) Importantly, the legislated and best practice requirements to protect against modern slavery practices are required to be observed. The University expects our advisers and portfolio managers to undertake high level risk assessments of the invested companies within their portfolios to identify general areas of modern slavery risk.

Corporate governance

(26) Corporate governance includes the questions of board composition, remuneration and corporate behaviour. The University expects its portfolio managers to hold companies with quality management. This is judged by the alignment with stakeholders’ interests, board experience and diversity, management’s accountability, including appropriate levels of transparency in accounting and disclosure.

(27) In addition to targets and commitments, companies can also turn to remuneration as another way to signal their focus on sustainability and align management incentives. The University expects companies to increase the incorporation of ESG focused metrics into management score cards as well as improved disclosure on the key performance indicators. The indicators include corporate culture, employee engagement, health and safety, environment, sustainability and net zero transition.

(28) With regard to proxy voting, the University should be advised on clearly contentious issues and its views sought. The University’s advisers and portfolio managers should be aware of the University's values and expectations from the mandate and the published Responsible Investment Guidelines and vote accordingly. A summary of the voting record and any proxy adviser recommendation should be provided annually.

Positive screening/impact investing

(29) University investment decisions should respect the rights and interests of First Nations peoples.

(30) The following industries are areas that the University sees as being consistent with its values:

a. renewable energy technology, including batteries, electric vehicles and hydrogen

b. carbon emission reduction, carbon capture and storage
c. agriculture, biodiversity and forestry sustainability
d. water technology
e. recycling and pollution control
f. medical and health sciences
g. information technology and related topics such as cyber security.

(31) Where any of the above activities constitute a material proportion of the business activity or supporting activities and meet the financial investment objectives, then investment in these industries may be specifically sought to support achievement of the University's values.

Monitoring, transition and reporting

(32) These guidelines are to be respected in all investment decisions. Where the University is consciously aware that an investment may not comply, then it should exercise judgement and have a clear rationale for why it continues with the investment.

(33) These guidelines should be provided in conjunction with the Investment Policy to fund managers, portfolio managers, advisers and individually managed account managers as part of any engagement and selection process.

(34) The Investment Committee should assess stocks held and appraise their alignment with the guidelines. Following each financial year, a report will be prepared for the Investment Committee advising adherence to the Responsible Investment Guidelines and any proposed actions in respect to mandates or assets that may not satisfy the guidelines. This will include analysis against an appropriate ESG ratings index (refer clause 14).

(35) Where the University determines to reduce its investment in an existing asset due to ESG appraisal, then the liquidation of that asset should be managed taking into account the financial and reputational aspects associated with the decision and may as a result hold temporarily or phase out over a period of time.

Section 5 - Glossary

(36) For the purpose of these guidelines:

a. ESG – means environment, social and governance, a term used to describe a group of factors that are integrated into investment research and decision making that are outside traditional areas of the analysis of risk and return.
b. Investment portfolios – include the University Corpus and the Foundation Portfolios.
c. Responsible investment - means an umbrella term used to describe an investment process which takes environmental, social, governance (ESG) or ethical considerations into account, with a view of gaining financially from choices that reflect the University's values.
d. For the purposes of carbon reduction measurement:
    i. Scope 1 – covers direct emissions from owned or controlled sources.
    ii. Scope 2 – covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company.
    iii. Scope 3 – includes all other indirect emissions that occur in a company's value chain. Scope 3 emissions are a consequence of the activities of the company, but occur from sources not owned or controlled by the company.

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