Colonial First State

Thrive+ Sustainable Growth

Sustainability Report

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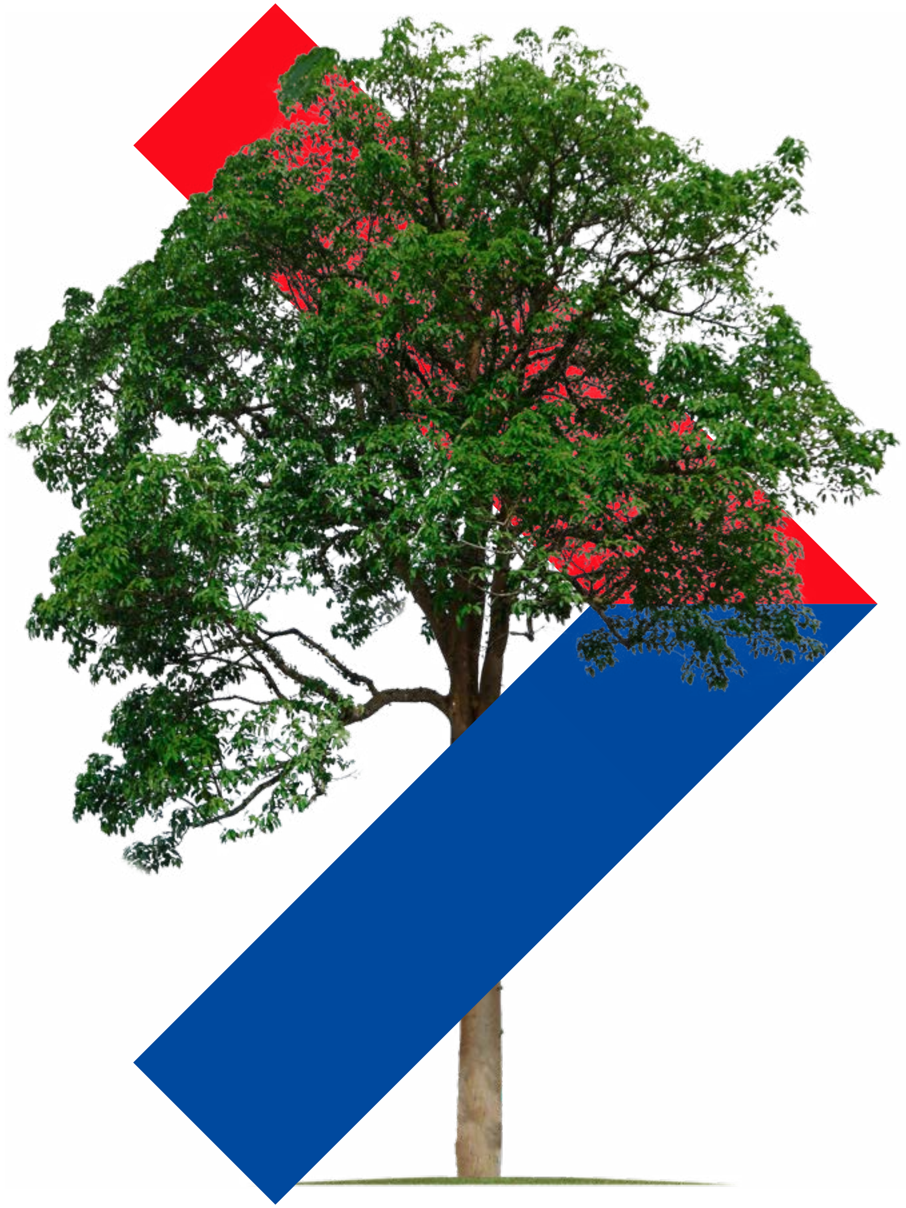


About this report

This is Colonial First State (CFS)'s inaugural Sustainability Report for the CFS Thrive+ Sustainable Growth Fund (Thrive+). It documents our journey, primary actions and progress for Thrive+ to the end of 2023. The metrics and case studies in this report relate to 31 December 2023, unless otherwise stated.

The portfolio represents $16 million in funds under administration across several external investment managers.

This report has been prepared by CFS, with information provided by the Thrive+ investment managers. Note that all figures when referenced as 'CFS Thrive+' refer to CFS Thrive+ (Class A) portfolio, unless otherwise stated.

Acknowledgement of Country

We acknowledge the Traditional Owners of Country throughout Australia and respect the continuation of cultural, spiritual and educational practices of Aboriginal and Torres Strait Islander peoples. We pay our respects to the Elders and Traditional Custodians of the past, present and emerging.

About this Artwork

Proud Aboriginal artist and Kalkadoon woman, Chern'ee Sutton, from the Emu Foot province around the Mount Isa area in Northwest Queensland has created an artwork to reflect the reconciliation journey of CFS. The artwork includes symbols to represent CFS, our employees and our customers, and the four areas of our Reconciliation Action Plan: Relationships, Respect, Opportunities and Governance.

The CFS purpose of 'Financial Freedom' was the main inspiration of the artwork – both the freedom to do what you love and the financial freedom to live a fulfilling life. These ideas are reflected through traditional Aboriginal designs and symbolise how CFS provides support and guidance to customers through connection, service and financial freedom.

A message from

Jonathan Armitage, Chief Investment Officer

CFS is pleased to present the inaugural Sustainability Report for the CFS Thrive+ Sustainable Growth Fund.

CFS recognises that society faces significant challenges to achieve a sustainable, thriving future for everyone. This is why we chose to launch our first multi-asset, multi-manager sustainability fund, Thrive+.

As one of Australia's leading superannuation and investment businesses, our purpose is to help our members achieve financial freedom in retirement. In doing so, we believe that how an organisation manages its environmental and social issues, and the quality of its corporate governance (ESG factors), directly influences its ability to sustain returns over the longer term.

Today, investors are more concerned than ever before about issues such as climate change, human rights and ethical supply chains. As a result, there continues to be increased demand for investment strategies that can adopt meaningful and measurable sustainability practices to deliver both positive impact and positive performance outcomes. At CFS most of the managers we appoint for our FirstChoice portfolios integrate a range of environmental, social and governance factors as part of the investment process. However, our sustainable growth option Thrive+ goes beyond this by being managed to sustainable investment criteria that is governed by the Thrive+ Sustainable Investment Charter.

The purpose of this report is to provide you more insight into the investments within Thrive+ that align with our members' values, and to help you pursue your financial objectives.

While appreciating that metrics and data in this area are evolving, we are determined to disclose and develop reporting for Thrive+ to inform our members and investors about our progress. Within Thrive+ we will continue to use investment capital, active engagement and proxy voting to create the change that our members want to see in the world, while still seeking to generate competitive returns over the longer term.

To close out the first full calendar year of performance, it is very pleasing to report an annual net return of 15.07%.[1] Although the funds under management are quite moderate at $16 million, we expect that to continue to grow.

Thrive+ benefits from the strong support of the investment team and broader CFS infrastructure and funds under management. The fund will continue to develop as opportunities arise.

> "The purpose of this report is to give you more insight into the investments within Thrive+ that align with our members' values, and to help you pursue your financial objectives."

1 Figures quoted are for CFS Thrive+ (Class A) portfolio to 31 December 2023.

About CFS

CFS is a diverse superannuation and wealth management business that manages and administers A$147 billion for almost 900,000 Australians. CFS helps Australians achieve financial freedom by managing their superannuation and investments, and eventually converting their super savings into a pension or annuity. We also provide choice-based investment platforms to financial advisers to support client needs.

For superannuation members, we offer an employer super product (FirstChoice Employer Super), a personal super product (FirstChoice Wholesale Personal Super) and a simpler super product, Essential Super, in partnership with the Commonwealth Bank of Australia. We also have a pension offering through the FirstChoice Wholesale Pension Fund. Each product has access to a wide range of investment strategies, as we believe a wide range of investment choice combined with affordable financial advice leads to better outcomes for members. FirstChoice Personal Super, for example, provides access to over 200 investment strategies.

Approximately half of our members receive advice from a financial adviser. In addition to providing members a wide range of investment choice, we also help advisers manage their clients' savings and investments through our choice-based investment platforms, called wrap platforms. For example, these platforms allow advisers to purchase listed and unlisted securities on behalf of their clients, all wrapped into one account. We have 1,000+ investment options available on our wrap platforms, including managed accounts, listed securities, and term deposits.

A$147bn
funds under management and administration

884,000
members

Supports
~8,000
advisers

~1,400
employees

~85
leading investment managers

One of the
largest payers of pensions
after the government

CFS FirstChoice platform

Master Trust for the provision of superannuation, pension and investment services.

A$117bn
funds under management

200+
investment strategies

CFS Wrap platform

Choice-based wrap platform for the provision of Investor Directed Portfolio Services (IDPS), superannuation and pension.

A$30bn
funds under administration

1,000+
investment strategies, including managed funds and listed securities

Numbers are as at 30 June 2023.

Our FirstChoice portfolio and how we invest

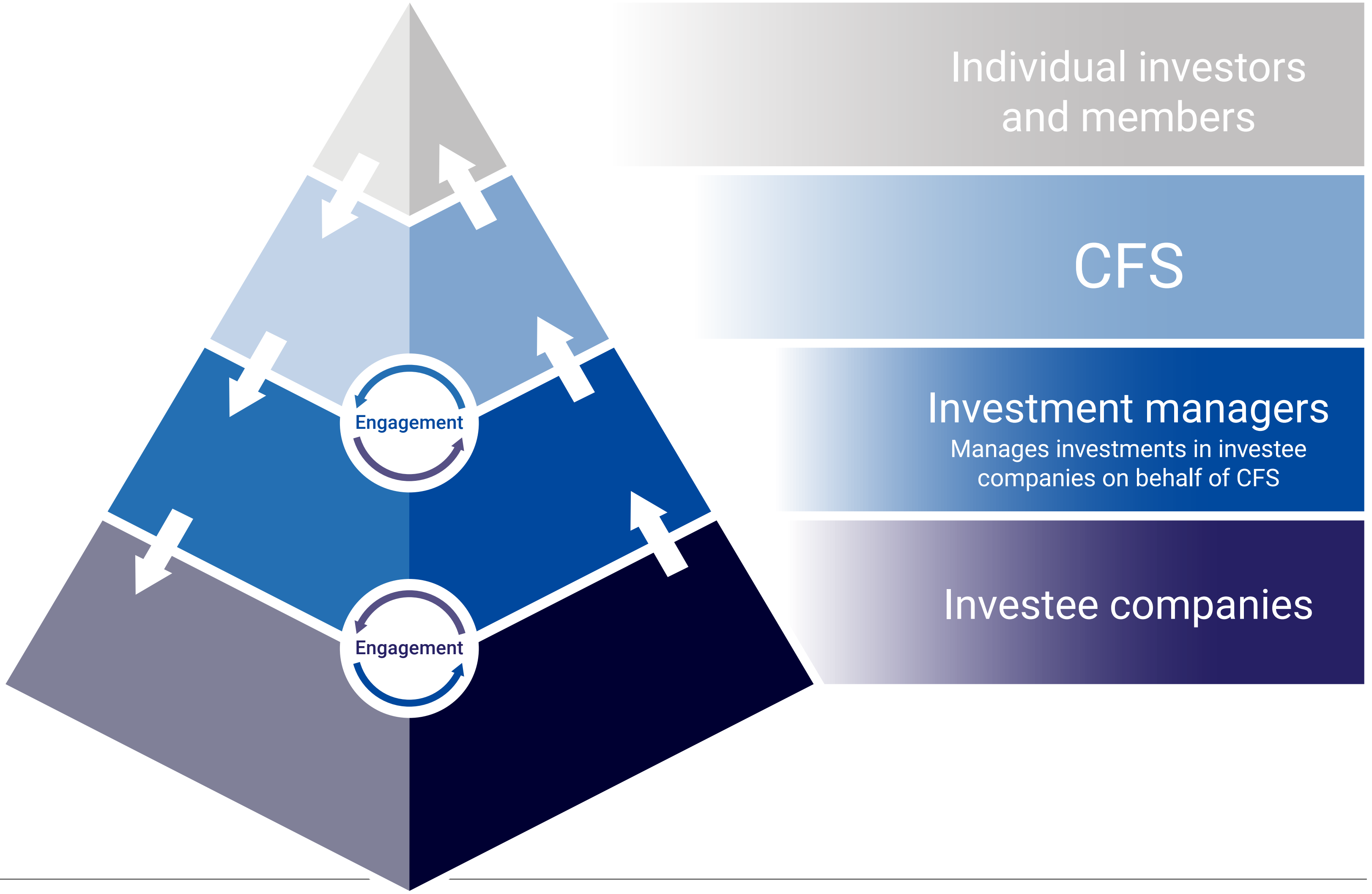
We have A$117 billion in funds under management (FUM) in the FirstChoice portfolio. The portfolio invests across listed equities, debt (including sovereign bonds, corporate bonds, asset backed securities and private debt), direct property, unlisted infrastructure and private equity. Across our FirstChoice portfolio we have more than 85 leading domestic and international managers who invest in and engage with companies on our behalf. Mandate agreements govern how the money should be invested, including specifying an appropriate benchmark, acceptable investments and investment ranges. Our mandate structure provides CFS transparency regarding the underlying investments.

Sustainable investment choices

At CFS, our mission is to help our members achieve financial freedom. In doing so, we recognise that our members have different objectives, values and preferences when it comes to how they invest their retirement savings. That is why we offer a wide range of investment options, so that members can invest their savings in a way that is most aligned to their personal preferences.

Our own Thrive+ Sustainable Growth fund seeks to avoid investing in companies that have a highly adverse effect on people and planet, whilst investing in companies that can make a positive contribution to the environment and society. In addition to Thrive+, members can also access a choice of 13 sustainable investment options.

Find out more about CFS's range of sustainable investment choice on the CFS website: [Funds & Performance Search]



2023 highlights

15.07%

annual net return to December 2023[1]

$16 million

funds under management (FUM)

Research house and certification ratings

Further details on these ratings are available on page 30.

CFS Thrive+ (Class A) portfolio

RIAA certified*	Lonsec – Recommended**	SQM – Superior^	Zenith – Approved^^

First four investments with Just Climate in the Climate Assets Fund

ABB E-mobility	H2 Green Steel	Infinitum Electric	Meva Energy

Platform availability

Colonial First State	FirstChoice	CFS Edge	FirstWrap
	BT Panorama	HUB24	Netwealth (private menu)

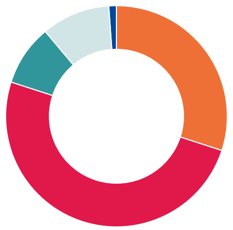
1 CFS Thrive+ (Class A) portfolio

Thrive+ approach to sustainability

Objective and strategy

In September 2022, CFS released its new sustainable growth fund 'Thrive+' to help its customers and Australians invest in a more sustainable way that better aligns with their values and objectives.

Allocation



Benchmark	(Range)	
30.0%	(25–45%)	Australian shares
50.0%	(35–55%)	Global shares and private equity
9.0%	(0–20%)	Australian fixed interest
10.0%	(0–20%)	Global fixed interest
1.0%	(0–10%)	Cash

Objective

To provide capital growth and income over the long term. To outperform the fund's composite benchmark over rolling three-year periods, before fees and taxes.

Strategy

The fund is managed to sustainable investment criteria that encourages investment in companies with a sustainable business and strong environment, social and governance characteristics. It seeks to avoid investments in certain companies or activities that have a highly adverse effect on the environment or society. This fund is governed by the Thrive+ Sustainable Investment Charter which details the Manager's approach and process to sustainable investment and exclusions. Note that investment exclusions do not apply to the cash or derivatives that may be used by the fund.

This fund allocates 80% of investments to growth assets, such as Australian and global shares, to provide potential for capital growth, and 20% to defensive assets such as fixed interest and cash. In order to provide additional diversification, the portfolio is allocated across a number of investment managers. Allocations to asset classes will generally align to the benchmark. However, the fund may adjust its exposure within the allocation ranges in response to changes in risk and return expectations. The portfolio aims to hedge currency risk except for part of the allocation to global shares.

Thrive+ seeks to avoid the industries identified as being of most concern to Australians[1], including weapons and firearms, certain fossil fuels, gambling, pornography, alcohol, tobacco and nicotine alternatives, and predatory lending. At the same time, Thrive+ seeks out investments in areas including climate change solutions, resource efficiency, sustainable communities, healthcare and diversity and inclusion.

1 The CFS Sustainable Investments Quantitative Research Report, August 2022, prepared by SEC Newgate Research.

We seek to avoid companies that have a highly adverse effect on people and environment.[2]

Certain fossil fuels[3]	Derive more than 5% of gross revenues[4] from: • **Thermal Coal:** Thermal coal mining, extraction, production, refining or processing. • **Oil & Gas – Conventional/Unconventional:** Oil and gas exploration, production and refining. Oil includes oil sands, tar sands, shale oil. Gas includes Coal Seam Gas and shale gas. • **Fossil Fuel Utilities:** Thermal coal power generation.
Weapons & firearms	• **Weapons – Nuclear:** Manufacture and/or store fissile materials used in/for nuclear weapons. Manufacture nuclear warheads and/or missiles. Produce uranium for nuclear weapons. • **Weapons – Controversial:** Manufacture including chemical and biological weapons, cluster munitions, antipersonnel landmines, and blinding lasers. • **Weapons/Firearms – Conventional:** Manufacture conventional weapons.
Pornography	Produce X-rated films, sexually explicit video games, magazines or adults-only internet material.
Gambling	Own or operate gambling facilities, online gambling or mobile gambling.
Tobacco & nicotine alternatives	Producers that grow/process or manufacture including cigars, cigarettes, e-cigarettes, inhalers, snuff and chewing tobacco.
Alcohol	Manufacture including brewers, distillers, and vintners.
Predatory lending	Unscrupulous lending practices that provide credit that incorporates interest rates, fees and/or contractual terms that do not reflect appropriate risk-based pricing and are unfair on borrowers.

2 An exemption applies to some fixed income investments 'use of proceeds' securities such as green, social, and sustainability bonds issued by companies, that may have otherwise been screened out, to fund projects with dedicated environmental and/or social benefits and to government, government related/ supranational. Exemptions do not apply to sustainability-linked bonds.

3 In certain circumstances, there may be an exception to the less than 5% revenue threshold if a company has publicly reported, in line with the Task Force on Climate-related Financial Disclosures (TCFD), on its progress to net zero by 2050 with a clear transition plan that also addresses the decommissioning, rehabilitation and social impacts of the transition. This will only be considered for a company where the excluded fossil fuel revenues remain a small part of their overall revenue.

4 We use a third-party data provider to supply threshold data and they will generally provide this for total or gross revenue. However, where this is not available, they will consider net sales or operating revenue as reported by the company in its financial statements for the purpose of revenue estimations.

Thrive+ encourages investment in companies with a sustainable business and strong environment, social and governance (ESG) characteristics. The investment criteria is governed by the Thrive+ Sustainable Investment Charter.

At CFS, we consider a double materiality approach when building the Thrive+ portfolio. We assess both 1) the ESG risks that are material to the investment company's value and 2) the degree to which a company's activities and products affect the environment and society.

Approach and process

Dual purpose	Diversified solution, actively managed	Strong advocacy and engagement
Aims to achieve competitive market returns and promote positive outcomes for our environment and communities.	Multi-asset, multi-manager fund providing access to managers with origins in sustainability.	Leveraging EOS at Federated Hermes (EOS) and investment managers to drive positive change for a sustainable future.

Thrive+ is a multi-sector, multi-manager portfolio that provides our members with access to active managers, each of whom have a sustainable focus. The investment managers align with our dual purpose of achieving competitive returns, together with positive outcomes for the environment and communities.

Thrive+ is managed in line with sustainable investment criteria that encourage investment in companies with strong environmental, social and governance characteristics, and seek to avoid investments in certain companies or activities that harm the environment or society.

Especially critical for Thrive+ is the process around inclusions and exclusions. Our managers must adhere to our exclusion list which specifies investments to avoid, while also encouraging our managers to invest along certain themes in companies that bring about positive social change or benefit to the environment.

While exclusions form part of the investment management agreements with our appointed managers, the inclusions reflect the themes that our members told us were important to them[1] and formed a core part of our manager selection criteria. The focus on individual themes may vary across different managers and as opportunities present themselves, but will be subject to continued discussion and ongoing evolution.

The key sustainability criteria for investment managers include investment in companies that generate positive change by supporting people and environment. In practical terms, this includes investments that promote:

- climate change solutions and investments that benefit from the transition to net zero emissions
- resource efficiency, by addressing the need to use scarce natural resources efficiently and sustainably
- sustainable communities, such as affordable housing and inclusive communities
- healthcare, focusing on wellbeing and nutrition
- diversity, equity and inclusion within the workforce.

As well as the exclusions and inclusions for investments in Thrive+, an important part of the process involves active ownership.

Active ownership, through voting at company meetings and engagement with company management, is a way to use our influence as a shareholder in a company to affect the way it does business. The aim is to improve the sustainable business conduct of the company and to deliver better long-term returns.

Our Thrive+ investment managers, and our stewardship provider, EOS at Federated Hermes (EOS), use engagement and strong advocacy to drive positive change for a sustainable future.

1 The CFS Sustainable Investments Quantitative Research Report, August 2022, prepared by SEC Newgate Research.

Governance of Thrive+

All CFS products have a very strong investment governance structure, which is captured within CFS's superannuation and non-superannuation responsible investment policies. These policies are reviewed and approved by the relevant boards periodically.

The responsible investment policies were last updated and approved in June 2023.

Over and above the processes and procedures followed for other CFS products, Thrive+ has an additional layer of governance through the CFS Sustainable Investment Governance Committee (SIGC), which includes an external independent member.

The objective of the CFS SIGC is to oversee adherence to the Thrive+ Sustainable Investment Charter

Deep dive on themes

There are five themes listed in the Thrive+ Sustainable Investment Charter, which encompass the type of companies we look to invest in.

Climate change

Addressing climate change, delivering climate change solutions and benefiting from the transition to net zero emissions.

Resource efficiency

Addressing the need to use and protect scarce natural resources wisely and manage waste sustainably.

Sustainable communities

Addressing the need for affordable housing and encouraging inclusive and sustainable communities.

Healthcare

Addressing healthcare challenges and focussing on wellbeing and nutrition.

Diversity, Equity and Inclusion

Addressing gender and racial/ethnic diversity and inclusive challenges at all levels of the workforce.

The following individual case studies[1] observe these themes and illustrate the type of companies that form the Thrive+ portfolio. Note that our investment managers will not only invest in these companies for their sustainability credentials but when they also satisfy the financial conditions for strong investment.

1 Source: Thrive+ Investment managers

Climate change

This theme comprises investments that seek to address climate change, deliver climate change solutions and those that will benefit from the transition to net zero emissions.

Applied Materials

Asset class: Global equity Region: USA

Who they are

Applied Materials (AMAT) manufactures engineering solutions used to produce semiconductors and display equipment. They currently have approximately 20% market share of the semiconductor capital-equipment manufacturing sector.

What they do

AMAT's equipment is used in numerous stages of the manufacturing process to produce logic, memory and analogue semiconductors. Its leading-edge technology facilitates the development of advanced semiconductors, which enable numerous productivity and energy efficiency solutions across sectors.

Semiconductor manufacturing involves thousands of steps, in which individual equipment manufacturers have very high market share. For instance, 75% of AMAT's equipment revenue comes from products in which it has >50% market share.[2]

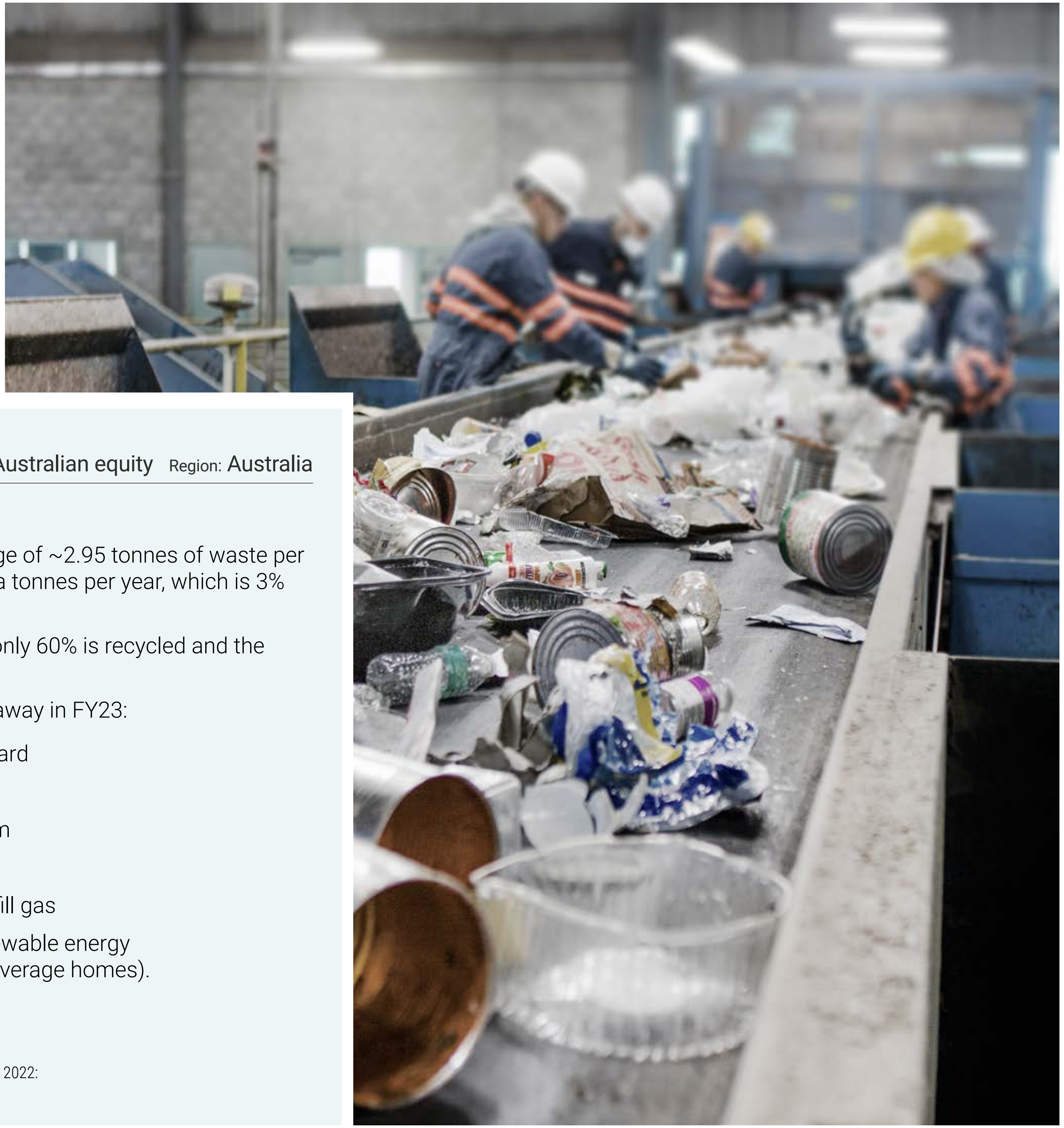
Why we invest

- Net zero is not possible without semiconductors. These devices are essential in processing, storing, and transmitting data in sectors of the economy which are driving the transition to net zero, such as electric vehicles, automated factories and smart grids, as well as being vital in powering generative AI. However, although the adoption of semiconductors is crucial in decarbonising certain industries, their manufacture has historically been very power intensive.
- AMAT works with customers to reduce the semiconductor industry's energy footprint through the 3x30 program. Goals include, on a per-wafer basis, a 30% reduction in equivalent energy consumption, a 30% reduction in chemical consumption, and a 30% increase in throughput density, all by 2030. As a company, they have also set a 2030 target of reducing their Scope 1 and 2 emissions by 50% (from a 2019 baseline).
- Ever-increasing digitalisation and rising semiconductor chip demand has resulted in capacity constraints across the industry. AMAT is positioned to benefit from a multi-year increase in capital expenditure by key customers to meet this demand. In addition, it benefits from the trends to 'on-shoring' or 'near-shoring' of semiconductor production. This will encourage a greater diversification of the semiconductor industry, which is currently concentrated in Taiwan.

2 Source: Gartner (an American technological research and consulting firm).

Resource efficiency

This theme comprises investments that seek to address the need to use wisely or protect scarce natural resources and manage waste sustainably.



Cleanaway

Asset class: Australian equity Region: Australia

Who they are

Cleanaway is Australia's largest waste management solutions provider. The business collects, processes, treats, recycles and disposes of all waste types to help manage and reduce waste generation.

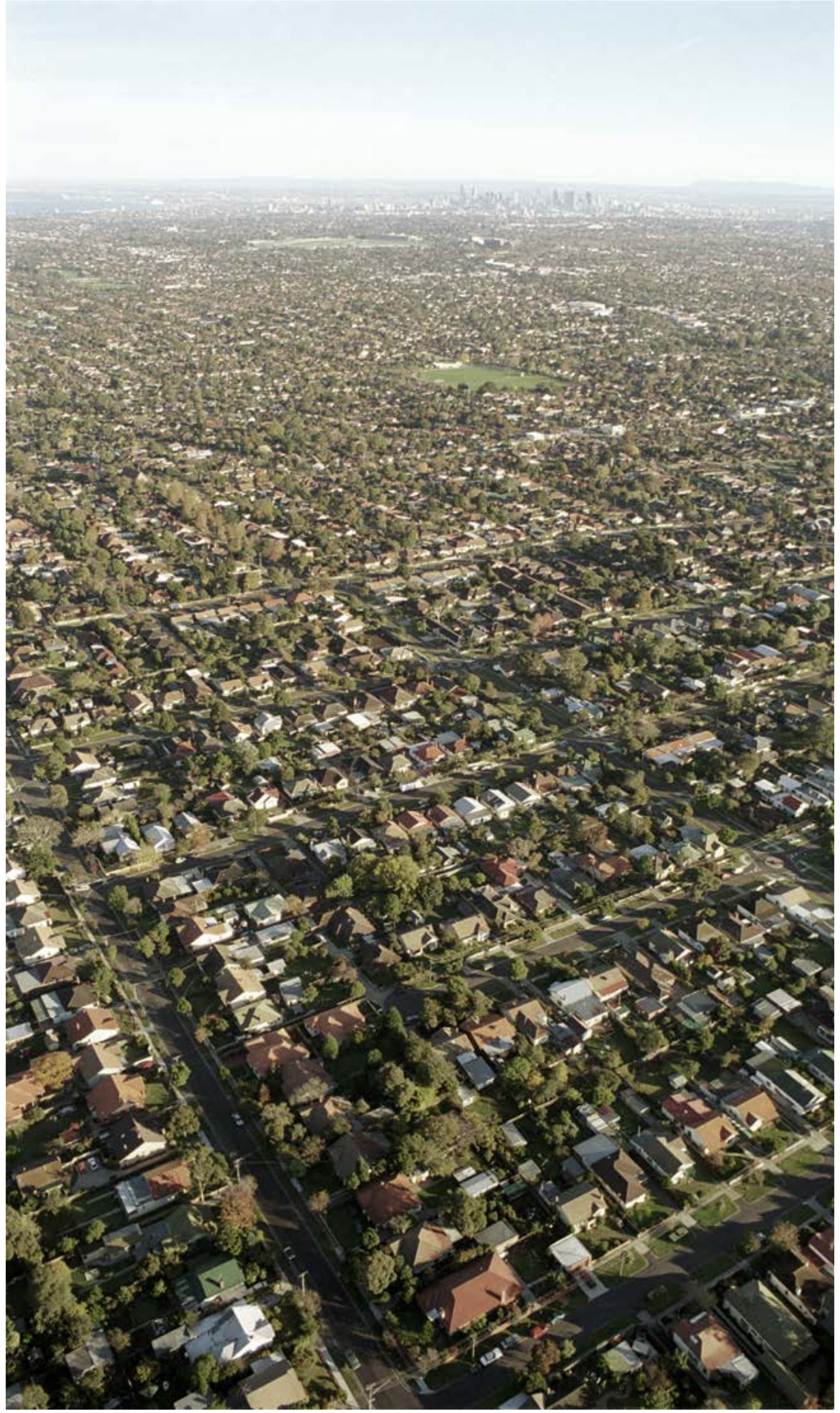
What they do

Cleanaway substantially reduce waste generation through an extensive network of state-of-the-art facilities, transfer stations, engineered landfills, liquid treatment plants and refineries services. Cleanaway facilities help turn waste into resources, which can then be fed back into the value chain. This helps conserve finite natural resources and reduce volumes of these resources going to landfill.

Why we invest

- Australians produce an average of ~2.95 tonnes of waste per person, or a total of ~76 mega tonnes per year, which is 3% higher than in 2018/19.[1]
- Of the total waste produced, only 60% is recycled and the remainder goes to landfill.
- Materials recovered by Cleanaway in FY23:
  - 431kt of paper and cardboard
  - 20kt of plastic
  - 32kt of steel and aluminium
  - 108ML of oil
  - captured 219Mm^3 of land fill gas
  - generated 242GWh of renewable energy (enough to power 47,600 average homes).

1 Australian Government – Media Release: Minister for the Environment and Water, Australia's latest waste figures, from the biennial National Waste report Dec 2022: https://minister.dcceew.gov.au/plibersek/media-releases/australias-latest-waste-figures-new-report



Sustainable communities

This theme comprises investments that seek to address the need for affordable housing and encouraging inclusive and sustainable communities.

Housing Australia[1] – Social bond

Asset class: Australian bond Region: Australia

Who they are

Housing Australia (previously known as The National Housing Finance and Investment Corporation (NHFIC)), is the independent national housing authority. Since 2018 they have facilitated and delivered programs to help more Australians to access social and affordable housing or to buy a home. They do this through enabling financial structures, such as issuing social bonds, to provide project certainty for investors, governments and community housing providers.

What they do

Housing Australia provides long term and low-cost finance through loans, investment and grants to registered community housing providers.

Significant shifts in the housing market over recent years have seen many more people locked out of the private rental market. This has seen a sharp increase in urgent demand for social and affordable housing that may exist for some time.

Why we invest

The diversified projects funded through the social bond provide a range of solutions, including:

- Foundation Housing in WA – in a market where vacancy rates are below 1% and rents rising by as much as 50%, the organisation was able to provide properties for 150 tenants.
- Housing Choices SA – sustainable building design for a community dedicated to low carbon lifestyle.
- Mission Australia – its key focus is to identify those who, with education, training and employment, can transition from social into affordable housing.
- Unison Housing – transformation of a 22-bed rooming house to a new apartment complex of 38 self-contained units for single women.
- Safe, secure affordable, good quality housing is associated with better outcomes for the tenants and the community, such as education, health and employment.

1 On the 12 October 2023 the National Housing Finance and Investment Corporation (NHFIC) was renamed Housing Australia.

Healthcare

This theme comprises investments that seek to address healthcare challenges and focus on wellbeing and nutrition.

Thermo Fisher Scientific

Asset class: Global equity Region: USA

Who they are

Thermo Fisher Scientific (Thermo Fisher), US headquartered, is one of the world's leading scientific testing and analysis equipment companies. The company has four business divisions servicing a wide range of customers in research, healthcare, industrial and applied markets.

What they do

Thermo Fisher supplies instrumentation for measuring and testing, laboratory equipment, diagnostic tools and basic tools for scientific research, reagents and medical consumables. They also provide outsourced research and development and manufacturing services, which pharma companies have increasingly outsourced to improve efficiency and address a rising regulatory burden. An example of this was during the COVID pandemic, when Moderna entered into an agreement with Thermo Fisher to manufacture and package its vaccine.

Why we invest

- Thermo Fisher is exposed to a variety of end markets, with the largest being pharma and biotech. They have evolved over the past 20 years and now generate around 60% of revenue from their pharmaceutical customers, up from 25% a decade ago.
- Product testing and analysis is an attractive growth area due to the increased need for testing for air, water and soil pollution, and food testing globally.
- Thermo Fisher has consistent, relatively predictable growth and presents several interesting growth opportunities within healthcare.
- The company has been an important consolidator in the US industry, benefiting from low-cost manufacturing, good assets/facility management and cross selling. It operates in more than 50 countries worldwide.
- The company has committed to net zero by 2050, but possibly more influential is its goal requiring 90% of its suppliers to set science-based targets by 2027. Given its position as the largest distributor for other companies in the life sciences space, this is likely to act as a stimulus for climate ambition.

Diversity, Equity and Inclusion

This theme comprises investments that seek to address gender and racial/ethnic diversity, equity and inclusive challenges at all levels of the workforce.

Ile-de-France Mobilites – Green bond

Asset class: Global bond Region: France

Who they are

Ile-de-France Mobilities is the mobility and transport authority of the Ile-de-France region. It is responsible for coordinating the provision of public transport services operating in Paris and the wider region. The authority issued a green bond, aimed at creating a sustainable and clean public transport system that is accessible to all. Proceeds have been allocated to a range of impactful projects that seek to decarbonise and expand the region's public transport network, while improving the accessibility of this infrastructure.

What they do

Proceeds from the bond have been used to implement the Accessibility Master Plan for the road and rail network of the region. The objective of this plan is to make train stations and bus stops accessible for people with reduced mobility, allowing more people to use the public transport networks. This includes people with disabilities, the elderly or people with a baby stroller. Adding public transport infrastructure helps to improve the connectivity within the region, including for residents in under-served areas. Additional investments have been made to ensure that everyone in the area can access public transport. As such, the proceeds raised from this green bond play an important role in reducing the emissions from the region's transport network, as well as providing an inclusive network for all residents.

Why we invest

- To make public transport more accessible to people with reduced mobility, thereby reducing car use.
- The rail project (2009-2025) has an objective of 268 train stations to be accessible covering 95% of passenger traffic.
- The road project (2015-2021) has an objective of 340 bus routes in the inner suburbs and 560 in outer suburbs to be accessible.
- Achieved so far:[1]
  - 539 bus lines made accessible out of target 900
  - 86% of the bus network in the inner suburbs (296 lines) is accessible
  - 15,400 (65% of network) bus stops made accessible.

1 Source: Les chiffres de l'accessibilité sur notre réseau | Île-de-France Mobilités (iledefrance-mobilites.fr)

Our progress

Portfolio ESG metrics

ESG measures

(for listed equity allocation of portfolio only)

	Portfolio	Benchmark
ESG score	7.75	7.10
Environmental score	6.23	5.55
Social score	5.38	4.88
Governance score	6.59	6.28

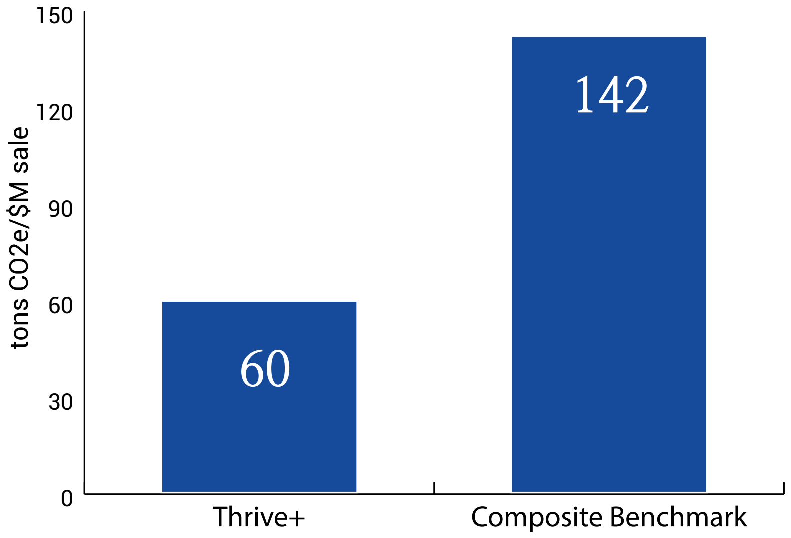
Source: MSCI ESG Manager, CFS. As at 31 December 2023

Unsurprisingly, when measured against a benchmark that does not specifically take ESG and climate factors into account, the fund's metrics are superior. These measures look at environmental, social, governance and combined ESG ratings, and the carbon emissions of companies held.

To learn more about MSCI ESG ratings, watch this short video.

Climate measures – Weighted Average Carbon Intensity (WACI)

Weighted Average Carbon Intensity Scope 1 & 2 (tons CO2e/$M sales)



Source: MSCI ESG Manager, CFS. As at 31 December 2023

Weighted average carbon intensity (WACI) measures the carbon emissions of a company against its sales and is a measure of the intensity of the carbon emissions, rather than a simple total carbon emissions figure. It allows all companies, large or small, to be compared using this measure.

Greenhouse Gas Protocol provides standards and tools that help countries and cities track progress toward climate goals. It divides emissions into 3 scopes for reporting. Scope 1 is direct emissions (e.g. produced onsite) whilst Scope 2 is indirect emissions such as power used by a company. Scope 3 covers all other indirect GHG emissions (not included in Scope 2) that occur in the value chain of the reporting company. As there is very little robust disclosure of Scope 3 at present, we do not include this metric in our reporting yet.

As expected, the portfolio's exposure to carbon-intensive companies is much lower than the benchmark. However, it is important for us to measure this to ensure our managers are decarbonising the portfolio over time. We have no specific target for Thrive+ portfolio with regards to its carbon footprint. However, given the philosophy of the individual managers and the type of investments they focus on, we would expect the carbon footprint to be significantly lower than the benchmark.

Both Thrive+ global equity managers, together with more than 315 other asset managers, with a total of US$57 trillion in assets under management,[1] have become members of the Net Zero Asset Managers initiative. This is an international group of asset managers committed, consistent with their fiduciary duty to their clients and beneficiaries, to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius.

Our Australian equity manager uses its own Climate Action Transition Framework (CATF) to identify high emitting companies that are improving their approach to climate change mitigation. The framework assesses a range of factors, including companies having to provide evidence of the progress they are making against credible emissions reduction targets.

The CATF is used at the initial stage of the investment process and ensures companies that are actively trying to mitigate their climate emissions can be considered for investment, no matter what sector or industry they are part of.

1 www.netzeroassetmanagers.org as at 4 December 2023

Engagements

CFS believe strongly that engagement and voting go hand-in-hand, so we appointed EOS to assist us in this area. As our global stewardship provider, EOS provides engagement, voting and public policy support for our global equity investments. For Australian-listed equity, our appointed investment managers engage with investee companies and vote on behalf of CFS.

EOS advises on more than US$1.45 trillion in assets to deliver corporate engagement and proxy voting services. The scale of the assets EOS advises on allows them to gain access to build constructive relationships with company boards on our behalf. Through our own engagement with EOS, we provide input into the engagement program that EOS will prioritise, to ensure it aligns with our own goals.

The main themes for voting that EOS focus on are aligned to their engagement themes. That is: Climate change action, human and labour rights, human capital, board effectiveness and ethical culture, biodiversity, fast fashion and digital rights.

The work EOS does is additional to the engagement work our managers undertake and any collaborative efforts that CFS is part of.

Although it is possible to compile a year-on-year comparison of the GHG emissions of portfolio companies, it needs to be understood that changes in portfolio composition, as well as changes in company reporting can have a significant effect on these figures from one year to the next. This is why company engagement by EOS and our managers is so important to interrogate these figures and understand the individual company's situation.

Anta

Asset class: Global equity Region: China

Who they are

Anta Sports is a branded sportswear company in China that seeks to allow customers to enjoy a healthy lifestyle whilst also increasing the focus on sustainable product lines, recycled materials and waste management in their facilities and production.

Start of engagement

Our manager first brought Anta Sports on to their investments list in 2017 and have engaged with them since then. However, the engagement intensity stepped up in 2022, when there was a specific, challenging issue at the company – the risk of exposure to Uighur forced labour in its supply chain.

Engagement objectives

The improvement of supply chain transparency and accountability. Specifically, the risk of Uighur forced labour in cotton picking.

Xinjiang is China's principal cotton-growing area, producing over 80% of domestic cotton. In recent years there have been multiple credible reports of human rights abuses in Xinjiang, including allegations of Uighurs being forced to work in cotton-picking.

Progress and outcomes

Our manager conducted careful research into the risks of similar exposures at Anta. The company does not have any production facilities of its own in Xinjiang, nor does it directly source from any factories in Xinjiang. It has answered the manager's questions in good faith and has made clear that its supply chain policies firmly prohibit forced labour. A key area for improvement is the traceability of cotton upstream in the company's supply chain – at present four steps removed from the raw commodity with limited traceability. While international brands may instruct their suppliers not to source yarn from Xinjiang, this is not an available solution in China for a large domestic brand. The manager continues to press the company to find an alternative certification solution[1] and to greatly improve its insight into its supply chain.

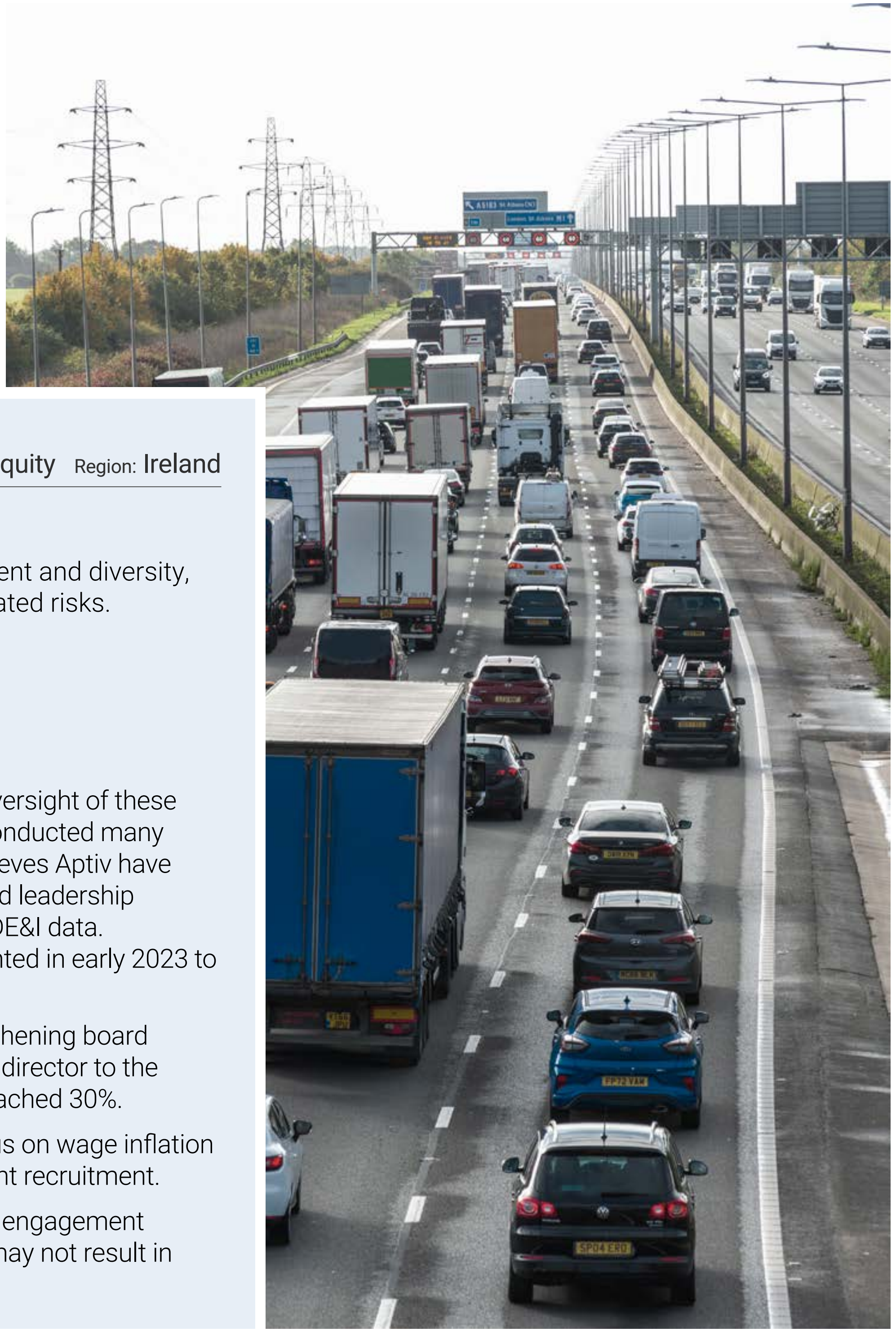
The company remains intensively engaged, with a focus on continued progress in supply chain transparency as well as on climate. Our manager sees this as very important for an example to other Chinese domestic brands.

Specific outcomes

- The company formally committing to setting a science-based target with the Science Based Targets initiative (SBTi).
- The company published its ESG report for 2022. On climate change, Anta followed for the first time the reporting framework of the Taskforce on Climate-related Financial Disclosures, including making high-level, climate-related physical and transition risk disclosure. Looking forward, the company has committed to full Scope 3 emissions reporting and to developing a "comprehensive carbon reduction plan to work toward the goal of net-zero carbon emissions by 2050."
- Anta published a new supply chain handbook. This set clear expectations of companies in its value chain on labour issues.

Our manager still wants to see more from the company, including a broader suite of more precise and better defined sustainability targets. However, they are positive on the progress that has been made so far.

1 Anta used to procure cotton certified by the Better Cotton Initiative (BCI), but BCI had to suspend certification of cotton from Xinjiang in 2020.



Aptiv

Asset class: Global equity Region: Ireland

Who they are

Aptiv is a global technology company that develops safer, greener and more connected solutions that enable the future of mobility. The company provides the advanced smart vehicle architecture and the connected mobility ecosystem at the forefront of smarter, automated and autonomous driving, safety, and infotainment.

The expected transition to electric vehicle (EV) relative to internal combustion engine (ICE) vehicles over the next decade represents a significant growth opportunity. ICE vehicles have content technology of $500 on average while EVs utilise more components at $1,200 per vehicle. Also, in the US, programs like the Inflation Reduction Act offer tax credits to incentivise EV purchases. These incentives should accelerate EV sales and further encourage the development of autonomous, connective technologies and EV adoption.

Start of engagement

2019

Background

Aptiv has a significant workforce of around 200,000 people (24,000-26,000 are permanent and salaried workforce, while 174,000 are hourly workers). Approximately 43% of its workforce is based in Mexico. The company confirmed it is also looking at new sites in Latin America.

Engagement objectives

- Improve understanding of human capital management and diversity, equity and inclusion (DE&I) and any possible associated risks.
- Enhanced disclosure of DE&I data and targets.
- Improve board diversity.

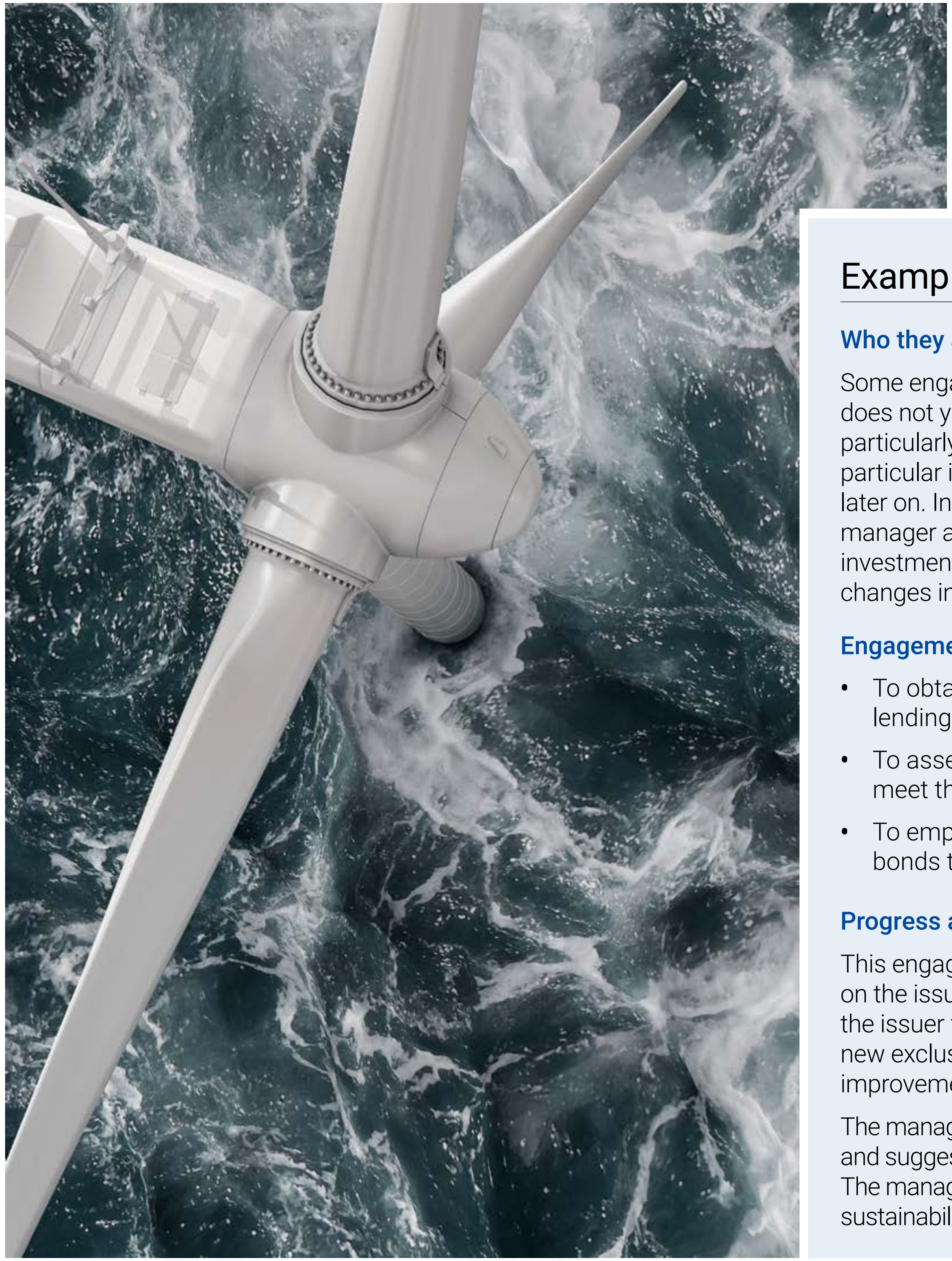
Progress and outcomes

Initial engagements focused on understanding Aptiv's oversight of these issues across its global employees. The manager has conducted many conversations with this company over the years and believes Aptiv have made significant progress in establishing mentorship and leadership development programs and in collecting and analysing DE&I data.
At executive level, a new Chief People Officer was appointed in early 2023 to oversee their people strategy.

The manager has also engaged the company on strengthening board gender diversity. The company appointed a third female director to the board in 2021, and as of 2022, board gender diversity reached 30%.

Engagement with Aptiv is ongoing, with a particular focus on wage inflation in Mexico (where 80,000 employees are based) and talent recruitment.

While this example resulted in a positive outcome, other engagement efforts by the investment manager may take longer, or may not result in an improved outcome.



Examples of bond engagement case studies

Asset class: Global bonds Region: Europe

Who they are

Some engagements may occur where the investment manager does not yet own an investment in the company. This is particularly true of bond managers, who may not invest in a particular issuance at the time of engagement but may do so later on. In this case, a government development agency that our manager approached at an investor roadshow, was not a current investment. However, they were keen to engage and discuss changes in the issuer's sustainability strategy.

Engagement objectives

- To obtain the issuer's latest policies on ESG integration in its lending, particularly on fossil fuels.
- To assess whether the issuer had made sufficient progress to meet the manager's sustainability standards.
- To emphasise the improvements needed for the issuer's bonds to be eligible for purchase.

Progress and outcomes

This engagement provided the manager with a detailed update on the issuer's sustainability strategy and affirmed its view on the issuer from an ESG perspective. The issuer explained some new exclusion policies it had introduced, which was noted as an improvement since the previous engagement.

The manager identified further exclusions they would want to see and suggested more specific criteria for the impact-bond framework. The manager felt they gained a helpful update on the issuer's sustainability profile and provided advice on their ESG policies.

Who they are

A European bank who had recently updated its sustainability bond framework.

Engagement objectives

- To discuss the changes to the framework and the issuer's sustainability strategy more broadly.
- To obtain detail on the issuer's approach to reducing financed emissions.
- To gain an additional level of detail on the issuer's impact reporting.

Progress and outcomes

The issuer explained the rationale for updating the eligibility criteria in some categories of its green bond framework, providing the manager with greater comfort on the impact potential of the framework. The manager provided feedback on the impact reporting and explained that they would like to see a more granular explanation of the technologies financed within each category.

Following the engagement, the issuer's latest round of impact reporting included this additional information. The engagement also gave the manager additional confidence in the bank's management of ESG risks, especially on reducing the emissions from its financing activities.

Thematic engagement

As well as case studies highlighting the importance of engaging with individual companies, there are also instances where an investment manager, stewardship provider or collaboration of groups will find it useful to organise their engagement efforts along thematic lines. This has the advantage of being wider in scope than the current investee companies of the portfolio. A selection of examples that are relevant to Thrive+ are included below.

In 2023 our stewardship provider, EOS, continues to have human rights as a priority theme where they engage with an expectation that companies will acknowledge the likelihood that human rights impacts may be present within operations and supply chains. They focus their engagement on ensuring that companies do not infringe upon basic human rights and provide effective remedy in the case of any harm.

Human rights within the supply chains for electric vehicles (EV)

The metals and minerals involved in EV production have been shown to have comparatively weak protections in place for the human rights of the workers involved. This is particularly concerning when the International Energy Agency (IEA) forecast a fourfold increase in demand for the metals and minerals involved in the clean energy technologies by 2040. [1] Particularly high growth is expected for EV-related minerals such as lithium and cobalt, and other materials needed for electrifying transport, such as bauxite, copper and iron. Some of the supply chains for these materials are concentrated in jurisdictions with weaker human rights protection and have been implicated in violations, including child labour and poor or hazardous working conditions.

Engagement objectives:

The manager decided to engage with a number of companies in the automotive and metals and mining sectors along the EV supply chain in all the major regions. The automotive manufacturers had global supply chains, including facilities and suppliers in high-risk areas, while the mining companies were more geographically concentrated in their operations and suppliers.

- To discuss the policies and systems the issuer has in place to mitigate human rights risks in its supply chain.
- To provide input on best practice regarding supply chain management and highlight areas for improvement.
- To engage on human rights as signatories and members of the Principles for Responsible Investment (PRI) Advance initiative.[2]

Progress and outcomes:

- Although investee companies displayed a range of ability to identify, manage and disclose the human rights risks they have all engaged constructively and were open about the challenges they face.
- All the automotive manufacturing issuers our manager spoke to regularly engaged with investors on human-rights risk management. However, several of the mining issuers, for example copper miners, had not previously received targeted investor interest on the topic.
- Remediation efforts ranged from pausing operations at specific sites, to terminating the relationship with suppliers along the supply chain who were found to be in violation of the company's human rights policy.
- Our manager provided recommendations on best practices and encouraged meaningful and material reporting and disclosure of human rights risks.

As well as the thematic engagement above, CFS supported a collaborative engagement launched in 2021: Tackling conflict mineral content in the semiconductor supply chain. This was supported by 160 signatories, amounting to US$6.59 trillion of assets as of November 2021.

1 The Role of Critical Minerals in Clean Energy Transitions – Analysis - IEA

2 Advance is a PRI led initiative to bring institutional investors together to take action on human rights and social issues and CFS is a supporter of this initiative.

Deforestation

Rates of forest destruction and species extinction remain at worrying levels. Deforestation has been trending downward over the course of decades, with recent reversals in some parts of the tropics. Repeated promises by Western corporations to eliminate forest destruction from their supply chains have so far yielded scant progress.

One of our global managers is a founding member of the Finance Sector Deforestation Action (FSDA)[1] initiative and sits on the Investor Strategic Working Group. FSDA unites 36 financial institutions with more than US$8 trillion in assets, whose goal is to work to eliminate agricultural commodity-driven deforestation risks from investment and lending portfolios by 2025.

Engagement objectives:

- To engage with nine companies that have been shown to be priority companies for FSDA members. A further eight companies have been assessed by Forest 500 or the manager themselves as being second-tier engagement priorities. In these companies, there is material use of one or more at-risk forest commodities or a risk of financing deforestation. These 17 companies are a mixture of consumer goods companies and financial institutions, and form the investment manager's Focus List.
- To encourage these companies to set a policy to eliminate deforestation from their supply chains by 2025.
- To get companies to institute a process of assessment and disclosure, including transparency on suppliers.
- To encourage companies to conduct ongoing due diligence and adopt a jurisdictional approach to avoid displacement of deforestation.

Progress and outcomes:

These companies represent the manager's core exposure to deforestation risk and are the priority names for engagement.

- Advocacy by the manager included speaking at New York Climate Week and signing policy statements calling for policy action on deforestation. The latter includes the 2022 Global Investor Statement to Governments on the Climate Crisis, of which CFS is also a signatory.
- While the manager is seeing progress from almost all their Focus List companies covered by the program, 2025 is fast approaching.

EOS, our stewardship provider has biodiversity as a priority theme in 2023 and beyond. They will focus on halting and reversing marine and terrestrial biodiversity loss at companies involved in the retail and production of food, including their global supply chains, and other sectors with significant physical or deforestation impacts.

1 Source: Nature-and-tackling-deforestation - Climate Champions (unfccc.int)

Climate change

Engagement objectives:

This manager believes the climate crisis is firmly upon us. They believe the investment industry needs renewed urgency in action to accelerate decarbonisation in the real economy, limit global average temperature rise to 1.5 degrees Celsius and ensure a just transition.

They have committed to align all of the portfolios they manage with net zero emissions by 2040.[1] They view this as an inseparable part of their fiduciary responsibility, and the ultimate aim of their engagement objectives within the climate change engagement framework.

Progress and outcomes:

- The manager agreed their climate change engagement framework in the second half of 2020.
- All investee companies were introduced to the new framework at the end of 2020/beginning of 2021 and given information and resources to guide them.
- It was made clear that the manager's expectations about climate change would increasingly impact their investment and voting decisions.
- The percentage of companies with no climate disclosure has continued to decline, from 28% in 2020 to 3% in 2023.
- Since 2021 proxy season, the manager has generally voted against the re-election of the chairman of a company that is not disclosing its emissions and will continue this action.

While the manager initially followed up with the highest priority engagement targets – focusing mainly on portfolio companies that were non-disclosers, material emitters or businesses they believed had the greatest potential to be 'system positive' on climate change – the concentrated nature of our portfolio allowed the manager to engage on climate change across their holdings and also many non-holdings.

The manager has seen many companies improve their disclosure and reporting of climate metrics, and feel there has been meaningful progress against their framework.

They are committed to keep up the pace of engagement to achieve their target of 60% Science Based Target [2] coverage across the portfolio by 2025.

Our stewardship provider, EOS, believes that investor engagement on climate change remains vital to help companies achieve the major transformation required to adequately manage climate risks. It does this through its own engagement program, where climate is a major theme, and by actively participating in the Climate Action 100+ initiative. In 2023, EOS acted on behalf of CFS as lead or co-lead engager for 21 companies, while supporting on more than 30 others.

A key trend for 2023 was stronger scrutiny of decarbonisation strategies offered by companies to reduce emissions, and ensuring they can effectively transform businesses to be fit for a low-carbon future.

EOS admitted in their annual report to us that "for many focus companies, decarbonisation will not be linear, and no single technology offers a complete solution".

This is why they emphasise the importance of comprehensive transition plans for hard-to-abate sectors that may require multiple solutions, some of which may still be emerging (for example, a company's implementation of hydrogen-powered steelmaking).

1 This is informed by the Paris Agreement to limit global temperature rise to 1.5 degrees Celsius (1.5°C) as well as timelines set out by the Intergovernmental Panel on Climate Change (IPCC)

2 The manager has chosen to use the Science Based Targets (SBT) coverage method in line with the SBTi Financial Sector Science-Based Targets Guidance

Voting

As mentioned previously, EOS, provide engagement, voting and public policy support for our global equity investments. For Australian-listed equity, CFS appointed investment managers engage with investee companies and vote on our behalf.

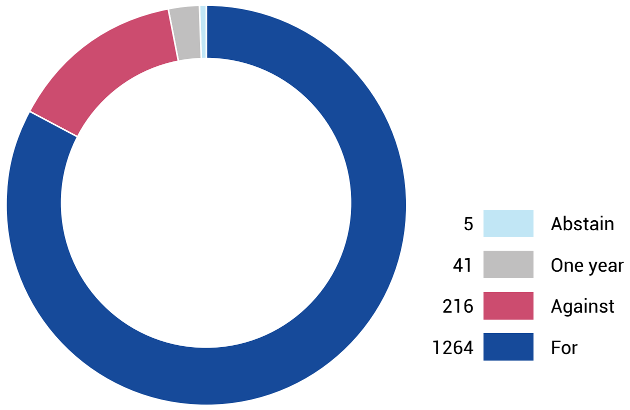
Whilst EOS will make a recommendation on how to vote on resolutions, CFS retains the right to vote on global equity investments the way we believe is in the best interests of our members.

For CFS holdings across all products, all voting results are disclosed to our members on the [CFS website here](#).

The dashboard shows aggregated voting results across all CFS portfolios. However, the following information is specific to Thrive+ for the calendar year 2023.

For the calendar year 2023, there were 1,526 proposals voted on with the following votes recorded:

Voting history for Thrive+ holdings for calendar year 2023

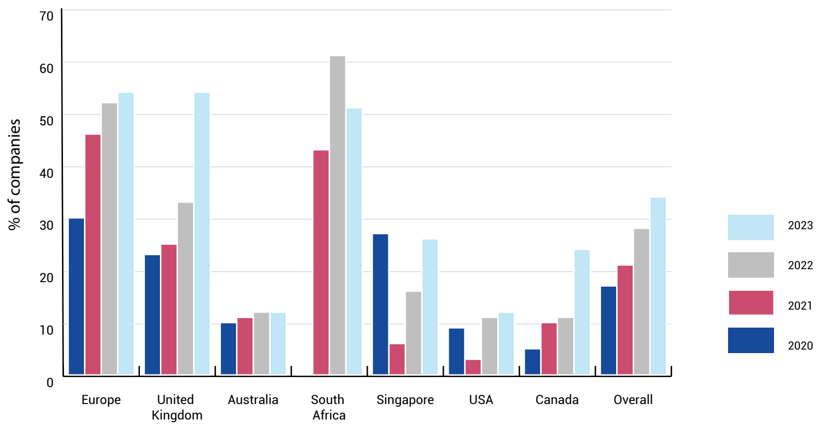


Note: the 'one year' category is for US management proposals only and relates to pay.

The majority of proposals (95%) were brought by management and more than half of them concerned the election of directors. The management proposals that recorded the most 'against' votes were primarily related to pay and remuneration, or concerns about board composition and diversity.

The inclusion of ESG metrics within long-term incentive schemes means that material factors such as employee safety and welfare, action on climate change, gender balance and water and waste management will be embedded into corporate culture because board directors and management teams are being incentivised to achieve them. Through our managers and stewardship provider, CFS can help to encourage this behaviour. The graph below shows that, although improving, Australia in particular has considerable room for improvement.

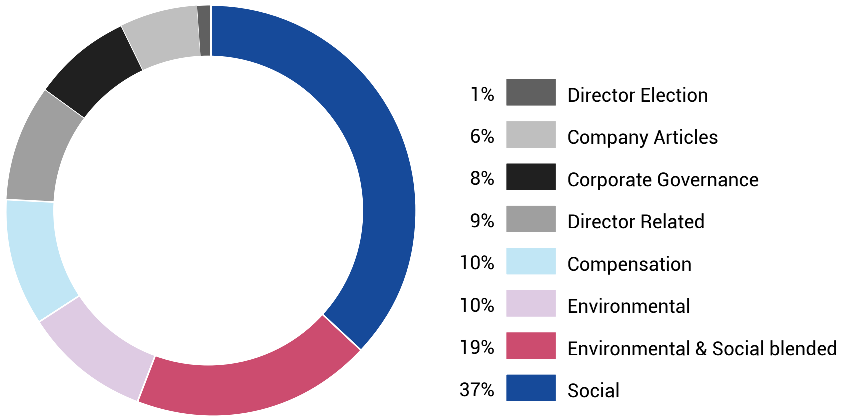
Prevalence of ESG measures in long-term incentive plans among companies using ESG measures



Source: Global Trends in ESG Incentives: Entering the next phase of maturity", Guerdon Associates, 2023

The chart below highlights the categories for shareholder proposals (5% of the proposals) over the calendar year 2023.

Shareholder proposals for Thrive+ holdings for calendar year 2023



A large portion of the shareholder proposals were related to social issues such as gender/racial pay gaps, working conditions and a call for reporting on effectiveness of diversity, equity and inclusion efforts. A smaller number were on environmental issues such as climate risk and transition plan assessments.

Climate Investment opportunities

At CFS, we have made a climate commitment for our FirstChoice investment portfolios to be net zero by 2050[1] and to help achieve this we are looking for climate investment opportunities.

Within Thrive+ we have made an allocation to Just Climate who are a newly created subsidiary of Generation Investment Management dedicated to climate led investing. Climate Asset Funds (CAF) is focused on investing in solutions that will generate outsize emissions abatement while generating attractive risk adjusted returns.

CAF intends to enable timely climate impact at scale through its investments in companies, and projects that can play a key role in the climate transition. Its focus is on the highest emitting industries most off track with net zero.

The fund will provide capital for:

- first-of-a-kind project
    - green steel production
    - low-carbon cement
- deployment scale-up
    - green hydrogen production
    - sustainable aviation fuel production
- emerging markets scale-up
    - wind
    - solar.

1 CFS climate commitment to transition the FirstChoice investment portfolio to net zero greenhouse gas emissions by 2050 relates to Scope 1 and Scope 2 financed emissions of investee companies. Scope 1 & 2 as defined in Appendix 2: Glossary of terms.

Some further detail on three of our Just Climate investments:

ABB E-mobility

ABB E-mobility is a Swiss-based global leader in electric vehicle (EV) charging solutions. According to the International Energy Agency (IEA), around 24% of all emissions come from the transportation sector, which has traditionally been hard to decarbonise.

Just Climate's investment in ABB E-mobility will help decarbonise road transport by accelerating the deployment of its solutions – ranging from smart chargers for the home to high-power chargers for highway stations of the future, solutions for electrification of fleets and opportunity charging for electric buses and trucks. Just Climate believes backing this business will have a significant impact on emissions abatement in a hard-to-decarbonise sector.

H2 Green Steel

H2 Green Steel is an industrial start-up based in Sweden that aims to accelerate the decarbonisation of the steel industry – one of the hardest-to-abate industries and responsible for more than 7% of emissions, according to the IEA. By replacing coal traditionally used in steelmaking with green hydrogen powered by renewable electricity, the company aims to reduce emissions of steel production by as much as 95%.

Just Climate's investment forms part of H2 Green Steel's Series B fundraising announced in October 2022, the proceeds of which will be used to develop the company's first-of-a-kind, large-scale, green steel plant in northern Sweden, the Boden Project.

Meva Energy

Meva Energy, also based in Sweden, provides an innovative gasification technology to generate renewable energy for manufacturing sectors. Just Climate will support Meva Energy as it scales the technology and rolls it out more broadly to provide a clean, practical and cost-efficient solution to a widely spread network of mid-scale industries that currently rely on fossil fuels to power their industrial processes and operations. Through Meva Energy's partnerships with two industrial players of scale, IKEA and SOFIDEL, the business has the potential to play a catalytic role in a sector-wide transition.

JUST CLIMATE by generation_

Advocacy

At CFS, we closely follow the engagement and advocacy that EOS and our Thrive+ managers undertake on our behalf. Here are some of the actions that align to the thematic engagements above.

Human and labour rights

Human and labour rights remains a priority theme for EOS. They seek to ensure increased vigilance in the protection of these rights following the coronavirus pandemic, which exacerbated inequalities and increased the risks of unacceptable working conditions such as modern slavery and low pay, and limited access to fundamental needs such as food and medicine. EOS also continue to focus on Indigenous and community rights and on high-risk regions such as disputed territories or areas of conflict. A further concern is digital rights in the virtual world, such as challenges to the right to data privacy, the right to freedom of expression and discrimination through the development of artificial intelligence (AI).

Companies are encouraged to follow the UN Guiding Principles (UNGPs) on Business and Human Rights and EOS will focus on escalated breaches of the UN Global Compact principles for human rights, including considering voting against directors if they do not adequately remediate these issues.

Biodiversity including deforestation

EOS have signed up to the Finance for Biodiversity Pledge and co-chair the Engagement Working Group. Through their involvement, they will collaborate and share knowledge with financial sector peers on halting and reversing biodiversity loss. They also engage and collaborate with the FAIRR Initiative[1] network on sustainable use of antibiotics within animal farming and protein diversification. In addition, they have signed up to the Investor Action on AMR[2] initiative and will continue to participate in a range of collaborative investor initiatives that are focused on tackling deforestation.

One of our managers has had multiple engagements with the Wilderness Society and Brambles to discuss Victorian native forests logging. They continue to advocate for the protection of native forests across other jurisdictions.

This manager is involved in a number of climate and nature-related industry initiatives with their Chief Investment Officer, facilitating multiple workshops on the Taskforce on Nature-related financial Disclosure (TFND) with large companies looking to understand the risks and opportunities associated with nature and biodiversity.

Another one of our managers participates in a company engagement on deforestation co-ordinated by the Finance Sector Deforestation Action (FSDA) initiative. Launched at COP26, the FSDA brings together 36 financial institutions with more than US$8 trillion in assets under management who are working toward eliminating agricultural commodity-driven deforestation risks (from cattle, soy, palm oil, pulp, and paper) in their investment and lending portfolios by 2025.[3]

Climate change

EOS support the Climate Action 100+ investor collaboration by acting as the engagement lead for a considerable number of the top systemically important emitting companies. They apply escalated engagement techniques, including raising issues at annual shareholder meetings and supporting shareholder resolutions which support positive change. We also support effective policy making aligned to the goals of the Paris Agreement, including net-zero greenhouse gas reduction targets by national governments.

Both our global equity managers signed up to the Net Zero Asset Manager's initiative[4] and are committed to using their voting and engagement actions to support the goal of net zero greenhouse gas emissions by 2050 or sooner.

For more information on the work done by EOS on our behalf, please see our 2023 annual review on the website.

1 The FAIRR Initiative (FAIRR) is a collaborative investor network that raises awareness of the environmental, social and governance risks and opportunities in the food sector.

2 Investor Action on Antimicrobial Resistance Antibiotics Statement | FAIRR

3 Source: Nature-and-tackling-deforestation - Climate Champions (unfccc.int)

4 The Net Zero Asset Managers initiative – An international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions

Conclusion

Australia's responsible investment market was valued at $1.3 trillion in 2022, or 36% of the market. It comprises entities who demonstrate a strong and comprehensive approach to responsible investment.[1]

As part of this cohort, Thrive+ not only aims to make a positive contribution to people, and environment, but also to be as transparent and informative as possible for our investors.

Our inaugural Thrive+ Sustainability Report is part of this commitment and we hope you have enjoyed reading it.

1 Responsible Investment Association Australasia Benchmark Report 2023

Find out more

Customers

Visit cfs.com.au/thrive

Call 13 13 36
Monday to Friday, 8:30am to 6pm (Sydney time)

Email contactus@cfs.com.au

Advisers

Visit cfs.com.au/investments

Call 13 18 36
Monday to Friday, 8:30am to 6pm (Sydney time)

Email adviserservices@cfs.com.au

To find out more about CFS's activities across a range of environmental, social, governance (ESG) and climate factors, visit our Responsible Investing page: Responsible and sustainable investing at CFS

Appendix 1: Memberships and collaborations

CFS is a member of a range of industry groups. By participating in these groups, CFS can take part in discussions and learn from the broader industry about the risks, opportunities and challenges that climate change may have on the value of investments.

Investor Group on Climate Change (IGCC)

CFS is a member of the Investor Group on Climate Change. Through our membership of the IGCC, we are supporting collaboration between super funds and the investment community to address the risks, opportunities and challenges that climate change may have on the value of investments. The IGCC also allows CFS to understand and contribute to relevant climate policy developments.

Climate Action 100+

Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Together with other investors CFS takes part in engagements with companies who have a major role in the transition to net zero emissions. As investors, this group has a powerful opportunity to effect change, diversification and transformation among the most carbon-intensive companies through their equity and fixed-income holdings. This is done through direct engagement with companies to support corporate practices that are consistent with long term value protection and creation.

Responsible Investment Association Australasia (RIAA)

We are a member of RIAA. With membership including super funds, fund managers, banks, consultants, researchers, brokers, financial advisers and individuals, it is the largest and most active network of people engaged in responsible, ethical and impact investing across Australia and New Zealand. RIAA is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy. We do this by influencing policy and regulation to support long-term responsible investment and sustainable capital markets and by being a trusted source of information about responsible investment.

Principles of Responsible Investing

We are a signatory to the UN-endorsed Principles of Responsible Investing (PRI). As such, we adhere to principles that involve incorporating ESG factors into investment analysis and decision-making processes, being active owners, and seeking appropriate disclosure on ESG issues from the entities in which we invest.

Investors Against Slavery and Trafficking – Asia Pacific (IAST-APAC)

IAST-APAC is an investor-led initiative convened to promote effective action among investee companies in the APAC region to find, fix and prevent modern slavery, labour exploitation and human trafficking in their value chains.

Appendix 2: Glossary of terms

Term	Definition
Active ownership	Employing shareholder power to influence corporate behaviour, including through direct corporate engagement, proxy voting and divestment/exclusion
APRA	Australian Prudential Regulation Authority
CA100+	Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change
Carbon footprint	The total carbon emissions for a portfolio normalised by the market value of the portfolio, expressed in tonnes CO2e / $ million invested
Carbon neutral	Carbon neutrality means having a balance between emitting carbon and absorbing carbon from the atmosphere in carbon sinks. Removing carbon oxide from the atmosphere and then storing it is known as carbon sequestration. In order to achieve net zero emissions, all worldwide greenhouse gas (GHG) emissions will have to be counterbalanced by carbon sequestration
Engagement	Investor-led dialogue with companies and other issuers on ESG matters with a view to share potential concerns, seek additional information, enhance public disclosure and/or influence behaviour
ESG	Environment, Social and Governance
ESG focused	Investments that integrate ESG factors to enhance their risk-return profile and promote environmental and/or social characteristics
ESG integrated	The systematic and explicit inclusion by investment managers of environmental, social and governance factors into the investment decision-making process
Exclusion framework	The questions that need to be answered before the decision to divest/exclude an investment

Term	Definition
Exclusions or exclusionary screening	The exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria, such as what goods and services a company produces, or how inadequate a company or country response is to emergent risks such as climate change impacts
Greenhouse Gases (GHG)	Atmospheric gases and aerosols, both natural and produced through industrial activities, that contribute to the greenhouse gas effect. This includes carbon dioxide (CO2), nitrous oxide (N2 O), methane (CH4) and hydrofluorocarbons (HFCs)
Green bonds	A type of fixed income instrument designed to support specific climate-related or environmental projects
Greenwashing	A term used to describe misleading claims by an organisation about the sustainability credentials of their operations or products
Impact investing	Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return
Intergovernmental Panel on Climate Change (IPCC)	The United Nations' body for evaluating scientific climate change information. It was set up to give policymakers scientific insights into the effects and future risks posed by climate change
Modern slavery	A form of human rights violation where a person is forced into something against their will
Net zero emissions	Net zero emissions are achieved when the man-made greenhouse gases released into the atmosphere are balanced by human managed removals over a specified period
Paris Agreement	A legally binding international treaty on climate change signed by 196 countries (including Australia) in 2015
PRI	Principles for Responsible Investment (previously known as UNPRI)
Proxy voting	This allows the shareholder to vote without attending the company's annual and special meetings by delegating a third party to vote

Term	Definition
Responsible investment	A strategy and practice to incorporate ESG factors in investment decisions and active ownership
RIAA	Responsible Investment Association Australasia
Scope 1	Direct GHG emissions that occur from sources owned or controlled by the reporting company, i.e. emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.
Scope 2	Indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company. Scope 2 emissions physically occur at the facility where the electricity, steam, heating, or cooling is generated.
Stewardship	Another name for active ownership, an investment concept where large investors (typically institutions rather than individuals) use their influence as major shareholders to actively encourage the companies they invest in to meet environmental and social standards
Sustainability themed investing:	Investment in themes or assets and programs specifically related to improving social and environmental sustainability, such as safe and accessible water, sustainable agriculture, green buildings, lower carbon tilted portfolio or community programs)
United Nations Environment Program Finance Initiative (UNEP FI)	A body that brings together a large network of banks, insurers and investors to collectively catalyse action across the financial system to deliver more sustainable global economies
United Nations Framework Convention on Climate Change (UNFCCC)	The entity tasked with supporting the global response to the threat of climate change
WACI	Weighted Average Carbon Intensity. Measured in tonnes CO2e/$M sales, it shows the exposure to carbon-intensive companies within a portfolio

* **RIAA**'s RI Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations. The symbol also signifies that:

- CFS Thrive+ Sustainable Growth adheres to the operational and disclosure practices
- its staff undertake continuing professional development on responsible investment required under the Responsible Investment Certification Program for the category of Investment Management Service when delivering its CFS Thrive+ Sustainable Growth.

The Certification Symbol is a Trademark of the Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Symbol and CFS Thrive+ Sustainable Growth's methodology can be found at www.responsiblereturns.com.au, together with details about other responsible investment products certified by RIAA.

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