CFS Thrive+ Sustainable Growth

Quarterly Report — December 2024

CFS Thrive+ Sustainable Growth (CFS Thrive+) is our multi-asset sustainable investment fund that aims to make a positive contribution to people and environment.

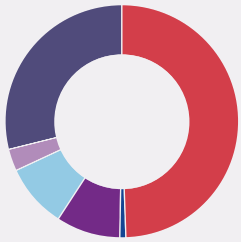
The fund encourages investment in companies with a sustainable business and strong environment, social and governance characteristics. The investment criteria is governed by the Thrive+ Sustainable Investment Charter.

Asset and manager allocation

Since the launch of Thrive+, the portfolio has allocated 80% of investments to growth assets such as Australian and global shares to provide the potential for capital growth, and 20% to defensive assets such as fixed interest and cash. However, we are expanding the asset classes that we may have exposure to in the future to include investments in property and infrastructure, as shown in the graph.

In December 2024, Thrive+ made an Australian unlisted infrastructure investment managed by Igneo Infrastructure Partners.

We've partnered with fund managers that are aligned to our sustainable investment criteria and have robust frameworks in place for selecting, retaining and selling investments. This includes MetLife Investment Management (formerly Affirmative Investment Management), Just Climate (JC), Generation Investment Management (Generation), Impax Asset Management (Impax), Melior Investment Management (Melior), Igneo Infrastructure Partners (Igneo) and Pendal Group (Pendal).



49% **Global shares and private equity** (range: 35–55%)
Generation Global Share (Unhedged)
Just Climate Private Equity
Impax Global Opportunities (Hedged by CFS Investment team)

29% **Australian shares** (range: 25–45%)
Melior Australian Impact

0% **Property** (range: 0-15%)

3% **Infrastructure** (range: 0-15%)
Igneo Infrastructure Partners

9% **Global fixed interest** (range: 0–20%)
MetLife Investment Management

9% **Australian fixed interest** (range: 0–20%)
Pendal Sustainable Australian Fixed interest

1% **Cash** (range: 0–10%)
Colonial First State

Actual asset allocations are shown as at 31 December 2024. Allocations have been rounded to nearest percentage.

CFS Thrive+ Sustainable Growth update

	Funds under management	As at date
CFS Thrive+ Sustainable Growth	$51.0 million	31 December 2024

This represents total funds under management for the CFS Thrive+ Sustainable Growth fund across all products.

Performance returns[1]

Financial performance	1 month (%)	3 months (%)	6 months (%)	1 year (%)	Since inception (p.a.)[2]
Portfolio net returns	0.39	-1.67	5.00	10.62	11.81
Composite benchmark returns[3]	1.49	0.46	7.95	13.93	13.87
Excess returns	-1.10	-2.13	-2.95	-3.31	-2.05

1 Figures shown are for CFS Thrive+ Sustainable Growth Class A fund to 31 December 2024. Past performance is no indication of future performance.

2 Inception date 19 September 2022. The since inception return is calculated on a cumulative year-on-year basis which is then annualised. For returns with periods of less than one year, they are actual performance and not annualised. Calculations are based on exit price to exit price with distributions reinvested, after ongoing fees and expenses.

3 Composite benchmark at 31 December 2024: 1% Bloomberg AusBond Bank Bill Index, 9% Bloomberg AusBond Composite 0+Yr Index, 9% Bloomberg Global Aggregate Index (AUD hedged), 29% S&P/ASX 300 Accumulation Index, 27% MSCI World ex Australia Net Index, 22% MSCI All Country World ex Australia Net Index Hedged AUD, 3% MSCI Australia Quarterly Private Infrastructure Index (Unfrozen) – Post-fee Total Return (50th Percentile).

Composite benchmark allocations have been rounded and may be subject to change at any time within the allocation ranges to align with actual allocation.

Performance commentary

In the last quarter of 2024, the fund had a flat return. Global markets were mixed, with Australian and global bond markets delivering negative returns due to Federal Reserve comments suggesting a slower pace of interest rate cuts in 2025, leading to higher yields. Global equity markets were volatile but ended the quarter positive. In November, markets rose with Donald Trump's confirmation as the 47th president and his anticipated pro-growth policies, tax cuts, and deregulation.

Due to a sharp decline in the Australian dollar against the US dollar, unhedged global equity returns were strong, outperforming hedged by nearly 10% in the MSCI All Country World Index. Global equity gains continued to be driven by mega-cap tech companies, while the healthcare sector delivered weak returns in part due to Robert Kennedy Jr's nomination as head of the US Department of Health and Human Services, (influenced by his past comments on vaccinations). The Australian equity market ended the quarter negatively and Thrive+ global equity managers significantly underperformed their benchmarks.

The performance of global benchmarks was dominated by larger technology companies, interest rate-sensitive financials, and certain cyclical sectors. For the global equity managers, sector allocation, especially the overweight to healthcare, detracted from returns whilst stock selection did not contribute positively either. Within the financials sector, the portfolio is focused on insurance companies that didn't perform as strongly as the banks. Within the materials sector, the market's preference was for cyclical exposures which worked against the portfolios focus on nutritional ingredients and companies providing environmental solutions. Within the Information Technology sector, the portfolio's exposure to semiconductor equipment manufacturers, dragged on performance as they suffered with delays in orders. A notable detractor in the portfolio was Vestas Wind Systems, a leading manufacturer of wind turbines who is especially attractive for providing on-going servicing and maintenance of wind turbines after installation. That stock performed poorly this quarter following the US election along with some other renewable energy companies.

The Australian equity allocation delivered in line with the benchmark which slightly underperformed over the quarter. Health Care was the largest positive contributor for the quarter with portfolio holdings Pro Medicus and Resmed contributing well. Diagnostic imaging software developer, Pro Medicus continued to win new customer contracts and Resmed's better than expected earnings result came as demand for its equipment to treat sleep apnea continues to grow. A detractor for fund performance came from the Industrials sector, where relatively defensive holdings such as Cleanaway and Reliance Worldwide were impacted post Trump's election victory. The overweight exposure to companies that will provide the raw materials required to decarbonize the economy (copper, lithium, iron ore and steel) was also a detractor from performance.

The US Presidential election result affected bond yields negatively, with markets viewing Trump's expected policies as inflationary. In November, the fund invested in a new Australian dollar green bond issued by Iberdrola, a Spanish utility operating in Australia. This bond will fund new investments in Australia of solar energy and battery storage. These are vital investments to further the transition to renewable electricity for Australia which is a crucial step to reduce carbon emissions. A purchase this quarter in the global bond portfolio, was a New York City social bond that is aimed at expanding access to affordable housing for low-income households.

Over the calendar year, the portfolio delivered strong double digit returns with positive contribution from all asset classes and stellar performance from global equity markets. However, despite this, the global equity managers underperformed their benchmarks due to overweight positioning in healthcare, lower than benchmark allocation to the Magnificent 7, a bias toward the relatively weak Microsoft, and from poor stock selection within the financial sector.

The Australian equities allocation outperformed the benchmark and delivered strong positive absolute returns. In Australia, the worst performing sector was Energy and the portfolio's performance benefitted from its exposure away from this sector along with stock selection in the financials and healthcare sectors.

In global bond markets this year there has been a continuous growth in issuance of impact bonds, with their annual issuance as at Dec 2024 at US1.1 trillion and US 5.8 trillion outstanding.[1] Reflecting this trend, the portfolio invested in several new ESG labelled bonds over the period. Purchases included a green bond issued by KFW, a German national development bank that funds renewable energy, energy efficiency and clean transportation projects, and a sustainability bond issued by the World Bank via the International Bank for Reconstruction and Development aimed towards achieving the Sustainable Development Goals. Additionally, the portfolio purchased the inaugural South Australian Sustainability Bond, and the first Australian Commonwealth government green bond.

1 Bloomberg NEF, MetLife Investment management

ESG measures[2]

	Portfolio	Benchmark
ESG score	7.51	7.11
Environmental score	6.24	5.64
Social score	5.27	4.92
Governance score	6.45	6.29

Source: MSCI ESG Manager, CFS. As at 31 December 2024.

2 For listed equity allocation of portfolio only.

As expected, the fund's ESG and climate characteristics were superior when compared to the benchmark. 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 you can watch this short video.

Climate measures

Weighted Average Carbon Intensity (WACI)

Equity allocation of portfolio	Portfolio (tons CO2e/ $M sales)	Benchmark (tons CO2e/ $M sales)
Scope 1+2	66.90	138.79

As at 31 December 2024.

Source: MSCI ESG Manager, Barra Portfolio Manager.

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. This means that all companies, large or small, can 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. As there is little robust disclosure of scope 3 now, 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, but 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.

Implied Temperature Rise (ITR)

Equity allocation of portfolio	Thrive+	Benchmark
MSCI Implied Temperature Rise (Celsius)	2.67	3.27

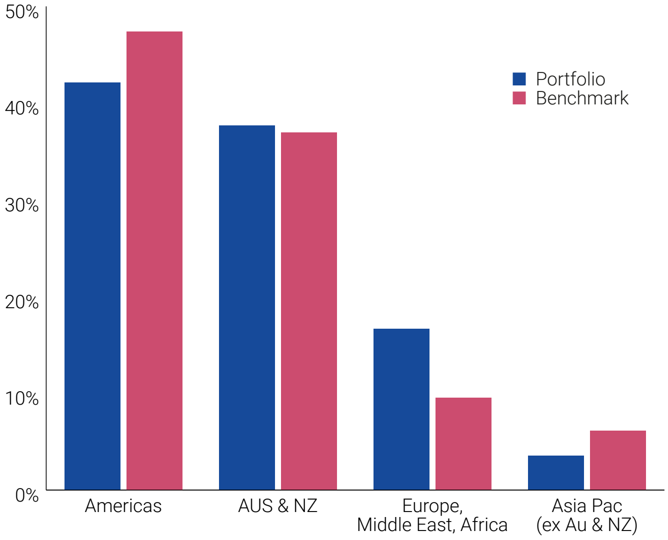
As at 31 December 2024.
Source: MSCI ESG Manager, Barra Portfolio Manager.

Implied Temperature Rise from MSCI ESG Research is an intuitive, forward-looking metric, expressed in degrees Celsius, designed to show the temperature alignment of companies, portfolios and funds with global temperature goals. The portfolio's ITR is lower than the benchmark.

CFS Thrive+ Sustainable Growth portfolio composition

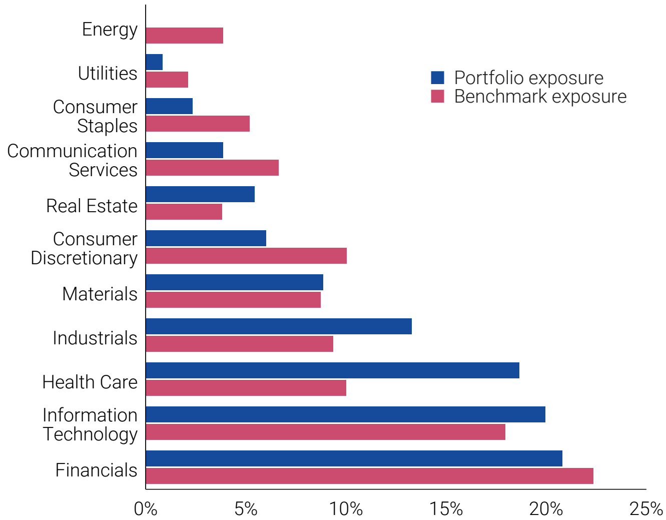
The equity portion of the portfolio is invested in the following regions and sectors.

Investment by region



Source: CFS, MSCI BPM. As at 31 December 2024

Investment by sector



Source: CFS, MSCI BPM. As at 31 December 2024

Largest holdings by weight

Australian equities

Company	Sector
CSL	Health Care
National Australia Bank	Financials
Westpac Banking Corp	Financials
Commonwealth Bank of Australia	Financials
Goodman Group	Real Estate

Global equities

Company	Sector
Microsoft Corp	Information Technology
Amazon	Consumer Discretionary
Thermo Fisher Scientific Inc	Health Care
Mastercard	Financials
Becton Dickinson and Co	Health Care

As at 31 December 2024

Sustainability highlights over the quarter

Italy to require companies to buy insurance for climate risk

From January 1, 2025, a new law will require all companies in Italy to purchase insurance to protect their assets against natural hazards, including flood and landslides, and all insurers to write policies to support this coverage. Failure to do so will result in fines. The plan to increase insurance coverage is supported by a €5 billion ($5.3 billion) reinsurance fund, set up by a state-controlled financial institution.

Research by Swiss Re reveals that the insurance-protection gap (the difference between insured and uninsured losses) in Italy for all natural catastrophes is roughly 80% in the past decade. Despite rising incidence of extreme weather events due to climate change, it is estimated only 5% of Italian firms have insurance cover.

CFS lodge Modern Slavery Statement

Sadly, there are more people in slavery today than at any other point in history, and it occurs in every country globally – not just in the developing world. There are huge impacts on society and of course those individuals involved, and we believe it has negative repercussions for companies and future development.

We have made a commitment to addressing modern slavery risk within our sphere of influence and act to identify, manage and mitigate modern slavery within our direct business operations, supply chains and investments.

CFS lodges a report in December each year and makes it available on the website. Our current report can be found here:

cfs.com.au/content/dam/colonial-first-state/docs/about-us/corporate-profile/CFS-Joint-Modern-Slavery-Statement-F.pdf

EU Green Deal implements Carbon Border Adjustment Mechanism

The European Union has initiated the Carbon Border Adjustment Mechanism (CBAM) as part of its Green Deal. Effective from December 2024, the CBAM is the EU's tool to put a fair price on the carbon emitted during the production of carbon intensive goods that are entering the EU. The goal is to encourage cleaner industrial production in non-EU countries and to level the playing field for EU manufacturers who are required to adhere to stricter environmental regulations.

US election result

With Donald Trump being elected 47th President of the United States of America there is a great deal of concern around what this will mean for the Inflation Reduction Act that President Biden put in place to increase jobs in energy transition, regulate the fossil fuel industry and limit pollution.

The extent of what is ahead is unclear, however even if there is a contraction of sustainable finance in the US, current trends indicate that global demand will continue.

The amount of ESG funds launched in Europe was 27 times more than those started in the US this year, and while clients withdrew $15.9 billion from US sustainable investment funds, European funds gained $37.3 billion.[1]

The Executive Secretary of UN Climate Change, Simon Stiell commented on the global clean energy boom, "Embracing it will mean massive profits, millions of manufacturing jobs and clean air. Ignoring it only sends all that vast wealth to competitor economies."

1 Source: FTI Consulting ESG+ Newsletter 16 January 2025 quoting Morningstar figures.

Company spotlight

December 2024

CleanPeak Energy Renewable Investment Trust (CPERI)

Who they are

CPERI is a builder, owner and operator of renewable energy generation, storage and multi-utility supply infrastructure. CFS Thrive's unlisted infrastructure investment in CPERI is managed by Igneo Infrastructure Partners.

What they do

CPERI builds, owns and operates solar pv and co-located battery energy storage systems ('BESS'), as well as multi-utility assets, for government, residential, commercial and industrial customers. The portfolio includes four operational multi-utility sites, as well as 60 operational or under construction distributed solar, small utility-scale solar and co-located BESS assets. Once construction is complete, the portfolio will have 163MW of solar capacity, 221MWh of battery capacity and 139MW of thermal capacity. CPERI benefits from long-term utility contracts across a diversified national customer mix.

CPERI has partnered with a specialist renewable energy developer and operator, CleanPeak Energy ('CPE'), who is responsible for delivering projects through construction and to operation. CPERI and CPE have a strategy to provide 100% renewable energy solutions to customers by utilising their portfolio of solar and BESS assets to ensure firm and reliable energy supply.

Why we invest

- Sustainability focused: CPERI has an electricity retail license and combines behind and in-front of meter to solar photovoltaic generation with co-located BESSs to supply customers with 100% renewable energy solutions.
- Unique platform with established scale: 64 operating or under-construction sites servicing >200GWh of embedded network and retail electricity load.
- Integrated and diverse operating portfolio: Revenue profile combines a mix of long-term fixed price contracted energy generation assets and shorter-term contracted assets with variable pricing to optimize risk-adjusted return across the business.

Examples of investments

- Barangaroo multi-utility precinct – world-class mixed-use development precinct with strong sustainability credentials. CPERI has 59MWt of thermal capacity and 1MW of solar capacity within the precinct.
- Wangaratta solar farm and BESS – 40MW capacity solar farm with a co-located 22MWh BESS currently under-construction in regional Victoria
- Huntingwood rooftop solar and BESS – 5MW of solar and 15MWh of BESS capacity on-site with a strategy to provide 100% renewable energy to Arnott's manufacturing facility by 2029.

Source: Igneo Infrastructure Partners

Company spotlight

December 2024

CSL Limited (CSL)

Who they are

CSL is an Australian multinational speciality biotechnology company that researches, develops, manufactures and markets products to treat and prevent serious human medical conditions.

What they do

CSL is the global leader in plasma-derived therapies. Plasma protein therapies produced by CSL are used by thousands of patients around the world every day. CSL's plasma-derived products reduce premature mortality from non-communicable diseases such as immunodeficiencies, bleeding disorders, hereditary angioedema and neurological disorders. CSL is the second-largest manufacturer of influenza vaccines in the world. Its vaccine business contributes to end the epidemics of communicable diseases including influenza and COVID.

Why we invest

- Plasma protein therapies are used by ~125,000 Americans and over 300,000 Europeans each year often in life-threatening conditions, as well as trauma and emergency medical needs that arise every day. CSL is the global leader in plasma derived therapies.
- As of December 2023, the COVID pandemic has caused the deaths of more than 7 million people globally. CSL has been a significant player in Australia's COVID response including manufacturing over 50m AstraZeneca COVID vaccines in Australia.
- In FY23, CSL made 98 product registrations, or new indications (repurposing of an existing product for new treatments) for serious diseases, up from 24 in FY22.
- CSL's Seqirus business is the second-largest global producer of influenza vaccines and distributed a record number of doses (130m) in FY23 (~135m in FY22).

Source: *Melior Investment Management Annual Holdings Report* June 2024 Page 32

Find out more

To learn more about Thrive+, please contact your local Business Development Manager, call Adviser Services on 13 13 36 (8:30am to 6pm Sydney time) or visit cfs.com.au/investments

Visit our Responsible Investing page to find out what else CFS is doing across a range of environmental, social, governance (ESG) and climate factors.