Australian Government
Commonwealth Superannuation Corporation

02/24

Stewardship:

Sustainability through an investment lens

Commonwealth Superannuation Corporation

Commonwealth Superannuation Corporation (CSC) ABN: 48 882 817 243, AFSL: 238069, RSEL: L0001397

Defence Force Retirement and Death Benefits Scheme
ABN: 39 798 362 763

Australian Defence Force Superannuation
ABN: 90 302 247 344
RSE: R1077063

Commonwealth Superannuation Scheme
ABN: 19 415 776 361
RSE: R1004649

Public Sector Superannuation accumulation plan
ABN: 65 127 917 725
RSE: R1004601

Military Superannuation and Benefits Scheme
ABN: 50 925 523 120
RSE: R1000306

Australian Defence Force Cover
ABN: 64 250 674 722

Public Sector Superannuation Scheme
ABN: 74 172 177 893
RSE: R1004595

1922 Scheme
DFRB Scheme
PNG Scheme
DFSPB
CSC retirement income

WE BELIEVE IN INVESTING RESPONSIBLY:

By integrating, into our active investment strategies and processes, consideration of not just direct asset and corporate risks, but also the indirect risks that arise from their interactions with the world in which they must operate.

The way we think about investment risk is integrated and long-term

What type of risks do we consider?

- **Risks** include traditional tangible financial risks, such as those directly impacting on a company's market share and operating profits, but also non-traditional risks. These non-traditional risks can be less tangible in the short term, but have the potential to significantly affect the long-term viability and competitive success of business franchises over the longer horizons relevant to you. These risks include, but are not limited to, the environmental (E), social (S) and governance (G) consequences of, and influences on, corporate operations and strategy—often referred to as 'ESG factors'.

Our philosophy

- We believe that the most successful companies are those that consider all potential, strategic influences on the long-term sustainability of their business, not just the short- term operational drivers of current profitability.
- Our goal is to work with, rather than in conflict with, companies in which your superannuation savings are invested, particularly companies where we have a substantial ownership stake and can use our informed influence.
- We are transparent about where our investment activities also result in genuine sustainable real-world impact, and where they only reduce the financial risks to our members—for example via simplistic divestment. There are many facets to managing ESG risks because they are interdependent.

We are active owners of our underlying assets where it is impactful and cost-effective. We use a variety of mechanisms to determine whether we prioritise engagement, and how we do it. For example, we may engage with businesses directly, via third parties, or not at all.

This 'prioritised engagement framework' depends on a variety of factors including:

- The type of investment
- The size of the investment
- Our 'share' or ownership in the investment
- Our ability to drive and track changes—being clear about what is impactful for the company or asset, and whether this is likely to result in additional impacts in the world in which that company or asset operates;
- The costs of the engagement.

For example, in the case of minority-owned public companies, we are more likely to actively engage when our shares are held via an active strategy which enables relevant in-depth insight. We are less likely to use engagement with a minority-owned public company whose public shares we hold via a passive equity market strategy.

In general terms, our approach to engagement under this prioritised engagement framework may involve the following steps:

- Raising issues with select investee companies;
- Enabling time for those companies to acknowledge and respond to those concerns;
- Engaging individually or collaboratively, or escalating via voting—depending on the companies' responses; or
- Divesting in specific cases where engagement is not viable and the financial risks to our customers cannot be mitigated.

We focus on value and achieving sustainable financial outcomes for you. Over time, this should also achieve **positive externalities** as we consider long term risks holistically.

How do we do this?

- **Investment option design**: our three diversified options are designed to suit the different phases of a typical member's working and retirement lifecycle.
- **Investment governance**: our intentional organisational design, processes and investment delegations framework support nimble, resilient and efficiently-implemented investment decision making.
- **Capital allocation**: we look for opportunities to invest in high quality assets at prices lower than their long-term fundamental or intrinsic value.
- **Benchmark choice**: we determine the right mix of different risk factors and use this to create a benchmark for your portfolio. We then evaluate investment opportunities against this low-cost benchmark.[1]
- **Incentives**: aligned to members' typical objectives for retirement income provision.
- **Identification and management of non-traditional financial risks through active ownership**:
  - Under our prioritised engagement framework, we may identify the factors that are expected to influence the sustainability of the value of any large investments of our super funds, including analysing the extent to which the company itself, and the market in general, is aware of these factors.
  - Where appropriate, we may take control positions to exert influence over the strategic management of private assets. An example is the office tower at 101 Collins Street in Melbourne.
  - Under our prioritised engagement framework, our goal is to have genuine proactive engagement with the Australian public companies in which your super savings are materially invested, where it is impactful and cost effective to do so, to support strategies that can sustain their profitability into the future.

We look for opportunities to invest in high-quality assets at lower prices.

We ensure that our super funds are, where impactful, active owners of the assets your super savings are invested in

What is active ownership?

- Being an active owner means that CSC, on behalf of our members, proactively engages with the management and boards of the Australian companies in which your super is significantly invested. Our goal is to support those companies to take decisions that are aligned with our members' best, long-term interests.

Why do we do this?

- Our goal is to have a positive long-term impact on the reliability of your super savings.
- In CSC's view, strong management of ESG risk can lead to reduction in financial risk as well as a rise in the long term value of shareholder investments. Conversely, poor management of ESG risk can lead to increase in financial risk as well as a decline in the long term value of shareholder investments. In particular, CSC focuses its attention on strong corporate governance with its investee companies as it is through this mechanism that CSC believes environmental and social risks directly impacting on a company's businesses are best managed—there is a naturally occurring alignment of interests between different stakeholders and the sustainable success of a company's business through incentivised governance. Strong company boards and skilful executive teams are best placed to optimise the successful management of many of the environmental and social risks that apply in a unique way to their individual company's operations.

How do we do this?

- Under our prioritised engagement framework, we work to understand the strategic challenges faced by our larger public company investments and the best practices that can be identified across their peer groups around the world.
- We value the ability to constructively communicate with these companies before risks arise, to try to prevent these risks having a negative impact on your super.
- We encourage these companies to build their capacity for strategic decision making that is aligned to the long-term interests of our members.

1 In determining the benchmark, the regulator, Australian Prudential Regulatory Authority (APRA)'s stipulated benchmark under the Your Future Your Super performance test is taken into account.

- Where appropriate we proactively engage with the management teams and Boards of these companies to support them to consider the long-term influences on, and consequences of, their business operations—not just those that are visible today.[2]
- We consider the advice of proxy advisors and vote on all shareholder resolutions and aim to vote in our members' interest—this helps us to influence and achieve outcomes aligned to our members' interests. A proposal from a company may be in the interests of company management but not the members of our funds. We seek to vote in a way that supports our members' long-term best interests.
- We focus on value to you—our voting decisions are aimed at supporting issues that will provide positive financial outcomes to our members over a long investment horizon.

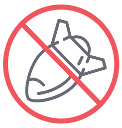
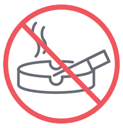
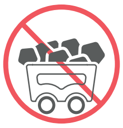
What do we expect of public companies?

- **Transparent reporting of all risks**: risks that the business might face not just in the immediate future, but over longer time horizons—including the consequences of their business activities on the environment and the way they treat their labour force.
- **Independent and highly skilled company boards**: containing people with the right mix of skills for the business and a diversity of perspectives.
- **Well-defined strategy**: that considers longer term risks and opportunities, and can be implemented effectively.
- **Appropriate pay structures**: that align employee rewards with business outcomes that are relevant to you, as one of our members.
- **Equal treatment of all shareholders**: we will resist any attempt to curtail the shareholder rights acquired through the investment of your super.

Divestment

As a last resort, we may choose not to invest in assets when we consider our active ownership practices cannot work sufficiently to reduce the associated risks to long-term viability of the business. Of course, we do not invest in companies which we are aware that are involved in activities contrary to Australian government regulations.

Examples of divestment include cluster munitions, tobacco manufacturers and undiversified companies that derive 70% or more of their revenue from thermal coal production/extraction.

2 Through our specialist investment managers or directly. Whether, and the extent to which, we engage with a portfolio company depends on variety of factors as set out above under 'Our philosophy'.

CSC's active investment managers are required to demonstrate that they integrate intangible and diverse unconventional (including-ESG-related) risk considerations in their investment decisions, as fundamental asset-management competencies.

CSC's resources do not extend to proactively identifying, accurately evaluating, properly prioritising among, or adequately addressing the diverse adverse impacts to which it is linked via the circa 1850 companies in our public equities portfolios.

To guard against a haphazard or capricious approach, CSC has spearheaded multi-decade efforts to develop and institutionalise collaborative initiatives that consolidate collective leverage, pool costs, and thereby support the specialised resources necessary for high quality portfolio-level decisions and effective actions.

We further note that as a fund with universal-owner exposure (thousands of fragmented shares in publicly-listed companies globally, we take a top-down prioritisation of systemic issues that can impact future sustainable portfolio value. For example, we may collaborate with other investors and third parties to improve capital market efficiency through standards, norms and accountability for externalities such as pollution.

CSC accesses a broad range of international suppliers to harvest insights via research; monitor and utilize the environmental, social and, in particular, the corporate governance ratings on prioritised Australian and international publicly-listed corporates in which CSC invests; and engages directly with the operational specialists in our directly-held assets (e.g. property and infrastructure).

Measuring our stewardship performance and your portfolio's footprint on the world

Global recognition of capability:

- Recipient of the United Nations' Principles of Responsible Investing Royal Award for excellence in sustainability in October 2003—an inaugural citation developed by the United Nations Environment Programme Finance Initiatives (UNEP FI) and the Royal Awards for Sustainability, recognising CSC's (then CSS/PSS) innovative and impactful consideration of ESG factors.
- A top 20% ranking globally in both the biennial 2017, 2019 and 2021 Bretton Woods II Most Responsible Asset Allocators Initiative (RAAI).[3]
- Awarded the 2018 AsianInvestor Institutional Excellence Awards in the category of Governance; in 2019, 2021 and 2022, the category of Investment Innovation; in 2020 and 2022, the category of COVID crisis management response; in 2020, 2021 and 2022, ESG engagement and in 2021 and 2022, the categories of alternative investing and best medium-sized pension fund in the Asia-Pacific region.[4]

Managing climate investment risk:

- CSC was the first Australian super fund to invite the Climate Institute to assess our carbon footprint.
- We aim to manage climate investment risk in three main ways by: investing in renewable energy opportunities, supporting robust transitions away from coal, and improving our net portfolio carbon footprint over time.
- CSC recognises that Australia is a signatory to the international accord of the Paris Agreement which aims to reduce global greenhouse gas emissions in an effort to limit the global temperature increase in this century to 'well below 2 degrees Celsius above preindustrial levels'. As a long-term, global investor, CSC explicitly distinguishes between:
  - Actions it can take to hedge customers' portfolios against climate risks arising from transition, physical impacts, and policy change (such as excluding assets if capital risks are estimated to be well in excess of expected return). On this basis, the characteristics of our portfolio can appear to be Paris-aligned because the net carbon emissions of our particular portfolio of assets, taken as a whole, have been reducing at a rate reflective of the trajectory required for Paris objectives. However, this measures the characteristics of our portfolio, which can be changed by trading out (or into) assets that have more (or less) carbon emitting processes. Trading out (or into) assets on the secondary market does not directly change the level of carbon being emitted into the atmosphere.
  - Actions that governments, through policy initiatives; operating organisations, through investment, organisational re-design, and supply-chain management; and individuals, through altered patterns of consumption demand can take to limit greenhouse gas emissions in the real world. We note that the Paris Agreement involves national decarbonisation commitments, but does not specify objectives for companies or portfolios. We understand that for many existing companies, transition will require higher levels of investment, less free cashflow, and higher operational risk—activities that can be monitored and supported by their material investors/investor cohorts. We also understand that a key direct route to climate impact is via higher-risk investments in new clean-energy activities that would otherwise not be financed and in technological innovation capable of leapfrogging existing adoption constraints.
- We encourage those companies in respect of which we are active owners to report consistently with the global best practice Taskforce for Climate-related Financial Disclosures (TCFD) framework, committing to increased transparency and disclosure of climate related financial risks and encouraging our investment managers and service providers to do the same. The ultimate aim of increased transparency is to make markets more efficient, and economies more stable and resilient. For more details see our **Climate change factsheet**.
- We join with coalitions of investors capable of robustly and credibly engaging with companies to transparently disclose:
  - their goals with respect to real world decarbonisation;
  - the impact of these goals, or the absence of such goals, on the future value of their organisation; and
  - their strategy for realistic achievement of these ambitions taking into account all relevant stakeholder needs.
- From 2015, we were an early signatory to the Montreal Carbon Pledge, supported by the Principles for Responsible Investment. In the last decade, it has achieved increased investor awareness, understanding and management of climate change-related impacts, risks and opportunities, with signatories committed to measuring and disclosing their portfolio carbon footprints annually. While the initiative has closed in 2023, CSC will continue to measure and disclose our portfolio regularly.

CSC's public market equities carbon footprint at 31 December 2023

CSC listed equities	CSC	Benchmark	Difference
Carbon footprint*	55	66	11

*Source: MSCI: Carbon footprint is measured in tonnes of C02e (Scope 1 + Scope 2) per AUD million invested.

3 Bretton Woods II New America RAAI, April 2019

4 *Annual AsianInvestor Institutional Excellence awards have been discontinued* from 2023.

Case studies of our stewardship

At CSC, we are proud to invest in opportunities that generate income for members in retirement, as well as contribute positively towards a more sustainable environment and better governed society.

Here are some examples that align with the *United Nations' Sustainable Development Goals (SDGs) framework*.

Modern slavery

We have been focusing on our investment managers and service providers in the last few years, to understand how they identify, manage and monitor risks of modern slavery in their supply chain. This has culminated in **CSC's Modern Slavery Statement**.

This contributes to *SDG 8: Decent work and economic growth*.

Health collaborations

We partner with skilled specialists like Blackstone Life Sciences to invest in promising new medical innovations. These activities are resilient to business cycle dynamics and impactful in the real world beyond finance.

Anthos Therapeutics is just one example. Its clinical-stage development of novel anti-coagulation medication are relevant to improving the lives of a large population of patients with a broad range of cardiovascular and metabolic diseases. Anthos' most advanced program is centered on a treatment called Abelacimab, a next-generation anticoagulant with the potential to provide vital protection from arterial and venous thromboembolic events with a reduced risk of clinically significant bleeding.

These health collaborations contributed to *SDG 3: Good health and wellbeing*.

Critical services supporting pandemic frontlines

We invest in private healthcare companies that provide a range of critical healthcare services to support the pandemic frontline such as clinics, pathology, aged care and pharmaceuticals. One of these companies, Nucleus Networks, previously ran clinical trials for a potential COVID-19 vaccine. CSC fully realised its investment in Nucleus Network in October, 2021.

This investment also contributes to *SDG 3: Good health and wellbeing.*

GEMS Education

Our investment in GEMS Education, the world's largest provider of private K-12 education, has generated positive social externalities globally, as well as created financial value for customers.

GEMS educates more than 131,000 students across 60 schools located in the UAE, Saudi Arabia and Europe.

In addition to school operations, GEMS also provides transportation and other support services including:

- uniforms, catering and after-school activities.
- GEM's first mover advantage in Saudi Arabia also contributes to gender equality, with and 49/51 girls/boys ratio at school.

Our investment in GEMS contributes to *SDG 4: Quality education* and *SDG 5: Gender equality.*

ACT Group

Through our European buyout manager, Bridgepoint, CSC has funded an investment in ACT Group. ACT enables companies and organisations to achieve their climate related goals and regulatory compliance by facilitating the buying and selling of renewable energy quota certificates and energy attribute certificates. As renewable and non-renewable power sources generally share the same power grid, determining the source of electricity can be a challenge. Renewable energy certificates provide a way for owners of certificates to legitimately attribute their power to renewable energy sources.

Our investment in ACT Group contributes to *SDG 13: Climate action*.

Case studies of active ownership of private assets

CDC: infrastructure of the future

The capabilities that CSC offers our super members is the unique combination of our scale and agility. Our portfolio construction is designed to recognise and move early into new investment opportunities before others crowd in. We "hunt where others are not (yet)" to secure strong growth with confidence.

For example, we were one of the first Australian super funds to recognise that data centres would be a critical form of infrastructure for a technology-driven future. We followed through with a significant pioneering investment in CDC Data Centres (CDC) in 2016, which has delivered significant returns to CSC customers in the past seven years.

CDC was strongly positioned to benefit from the trend we spotted towards centralisation of computing and data storage in efficient, purpose-built centres. This reflects the calibre of CDC's management team and their capability to leverage and grow their specialised knowledge and servicing-quality in the Canberra market.

We pro-actively sourced this investment from within our high-quality-investment manager network, rather than wait for the marketplace to eventually recognise the value of this strategy.

In December 2019, we completed a partial (50%) sale of our interest in CDC to lock in material gains for our members. We continue to remain a major shareholder of this business, because we continue to believe in its capacity for further growth both geographically and via expanding partnerships with other large commercial data operators.

CDC also uses a closed loop water-cooling system, to reduce water used for cooling by at least 50,000 litres per day compared to traditional data centres, contributing to *SDG 9: Infrastructure* and *SDG 11: Sustainable cities and communities.*

In addition to our initial data centre investment, we have more recently made additional complementary datacentre investments in Asia and the US to leverage what is now a domain expertise for us and take further advantage of the unremitting advance of digitalisation.

We have also added to our portfolio through private digital assets like broadband fibre internet providers across the United States, the Netherlands and also back home here in Australia via Uniti Group.

These digital investments benefit from the long term secular trend of increasing reliance on information technology infrastructure. For example, broadband has reached 'third utility' status as an essential service for recreation, work from home and as a communication service.

On average, Australians spend more than five hours per day on 'screen' devices, most of which are internet connected.

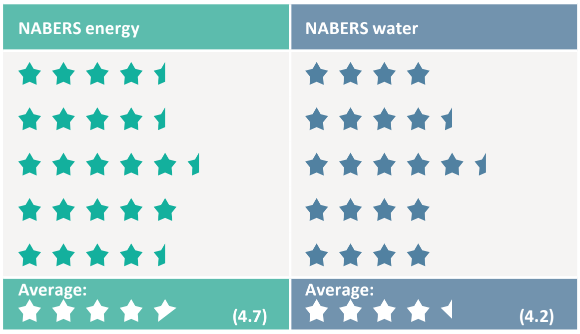
Revenues are largely linked to inflation and protected from short term fluctuations in economic activity.

CSC Direct Property (office) portfolio

Our average NABERS* energy rating is about 4.7 stars (with no building having a star rating below 4.0). Over the last two decades, CSC has invested capital to improve the energy efficiency of our property investments. CSC has a strategy to achieve carbon neutrality at all of our office property assets before 2030 (Scope 1 and 2).

Over the time that CSC has held these investments, we have improved the NABERS energy ratings of our major directly-held properties, by investing in energy-efficient technology (e.g. electric chillers, LED lights) and installing energy reduction management systems.

We aim to own and improve properties with leading ESG credentials to maintain high quality assets to attract and retain high quality tenants and maximise the value of these assets for our customers. This contributes to *SDG 7: Affordable and Clean energy.*



*** NABERS, the National Australian Built Environment Rating System, is used to measure a building's energy efficiency, carbon emissions, as well as the water consumed, the waste produced and compare it to similar buildings.**

Innovative local water and electricity utility business

Our infrastructure investment in Altogether Group, a multi-utility business provides water and energy services to over 500 communities in NSW and Queensland.

It contributes to the conservation of one of the most precious resources—water—by proactively addressing the increasing disruption in the provision of essential services.

This investment is an opportunity to help efficiently manage the essential resource needs of new communities and contributes to *SDG 6: Clean water and sanitation* and *SDG 11: Sustainable cities and communities*.

The business integrates intelligent water and energy solutions with traditional supply sources to improve economic and sustainability outcomes for customers.

For example, the business builds and operates state-of-the-art local water centres, including the world's largest in-ground residential water centre. Its core water utility service includes drinking water, recycled water, and wastewater services. Residential water customers use up to 70% less drinking water than average through the use of localised water recycling infrastructure for use on gardens and lawns, for washing down equipment outdoors, for toilet flushing, clothes washing and air cooling. As recycled water is not subject to water restrictions, this gives communities secure water supply all year round.

Its energy services include investments in energy efficient infrastructure and demand management technologies such as smart meters and embedded generation and storage. In many cases, it also provides bespoke thermal networks which use a centralised plant to provide communal heating and cooling to residents in an energy and cost-efficient manner.

Office Tower, 101 Collins St Melbourne: solar energy

- CSC, on behalf of our members, is the sole owner of this building.
- 101 Collins St was the first premium-grade office tower in the Melbourne CBD to have installed solar power, which saves 59 tonnes of greenhouse gas emissions each year. This has enhanced the capital value of the building, thereby boosting your returns.
- The building has historically generated strong inflation-linked cashflows and significant capital appreciation. This investment contributes to *SDG 7: Affordable and clean energy*.

Akuo (in partnership with Intermediate Capital Group)

- Akuo is a global renewable asset developer , diversified across types (wind, solar, biomass, hydrogen, storage) and geographies (15+ locations around the world).
- This investment adds to the net stock of new alternative energy assets, making a genuinely additive contribution to the journey to net zero. Furthermore, CSC's investment in Akuo is structured to provide downside protection as well as participation in the upside. This is in part because Akuo's revenues are largely insulated from economic conditions due to long-term power purchase agreements or regulated tariffs that may use inflation linked pricing. This investment contributes to *SDG 7: Affordable and clean energy* and *SDG 13: Climate action*.
- This investment follows our earlier investment in windfarms domestically back in 2015.

As renewable assets appreciated strongly as others recognise their value and our domain expertise increased, we've been able to recycle our profits into higher returning development platforms, platforms that build new renewable assets across solar, wind, biomass and hydro. These businesses are valuable to our customers' retirement outcomes because their financial returns are largely insulated from short term economic conditions. Instead their cashflows benefit from long term power purchase agreements or regulated tariffs.

Amplitel

- Amplitel is the largest telco tower infrastructure provider in Australia (>8,000 towers).
- Amplitel's business in anchored by a multi-decade, inflation-linked lease with Telstra and growth from new tenancies from strong mobile data growth and 5G rollout.
- These assets involve contractually-inflation-linked revenues and high-quality-credit counterparties which can protect the real value of CSC members' savings.
- This investment contributes to SDG 9: Industry, innovation and infrastructure.

Where can I get more information?

CSS — **Commonwealth Superannuation Scheme**

EMAIL members.aps@contact.csc.gov.au
PHONE 1300 000 277
FAX (02) 6275 7010
MAIL CSS
GPO Box 2252
Canberra ACT 2601
WEB csc.gov.au

PSS — **Public Sector Superannuation Scheme**

EMAIL members.aps@contact.csc.gov.au
PHONE 1300 000 377
FAX (02) 6275 7010
MAIL PSS
GPO Box 2252
Canberra ACT 2601
WEB csc.gov.au

PSSap — **Public Sector Superannuation accumulation plan**

EMAIL members@pssap.com.au
PHONE 1300 725 171
FAX 1300 364 144
MAIL PSSap
Locked Bag 20117
Melbourne VIC 3001
WEB csc.gov.au

ADF Super — **Australian Defence Force Superannuation**

EMAIL members@adfsuper.gov.au
PHONE 1300 203 439
FAX 1300 204 314
MAIL ADF Super
Locked Bag 20116
Melbourne VIC 3001
WEB csc.gov.au

Military Super — **Military Superannuation & Benefits Scheme**

EMAIL members.adf@contact.csc.gov.au
PHONE 1300 006 727
FAX (02) 6275 7010
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GPO Box 2252
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