QGUIDE

Integrating ESG into our investment approach: Global Private Capital

QIC believes environmental, social and corporate governance (ESG) factors have a material impact on the long-term outcomes of investment portfolios and the assets we invest in.

Sustainability is about operating and creating value for all of QIC's stakeholders through the range of complex risks and opportunities we face today and into the future. In doing this, ESG is a powerful source of insight and can lead to more informed investment decisions.

We also believe ESG considerations are important in how we operate as a business, in our organisation's culture and ultimately in our accountability to our stakeholders. In our view, integrating ESG leads to better outcomes for our society and the environment.

At the core of our approach is the idea of ongoing evolution. We continually improve the integration of smart and sustainable solutions into the way we generate investment outcomes.

OUR ESG FOCUS AREAS

ESG can mean a range of things to different people. While there are many important ESG issues to consider, we have identified six ESG areas of focus which represent some of the bigger issues facing QIC as an investor and as a corporation.

CLIMATE RISK	ENVIRONMENTAL SUSTAINABILITY	PEOPLE
• Adaptation to physical impacts • Impacts of transition to a low carbon economy	• Environmental impacts • Resource efficiency • QIC's own footprint	• Workplace health and safety • Labour rights • Human rights in supply chains • Diversity and inclusion
COMMUNITY	**CORPORATE GOVERNANCE**	**ACTIVE OWNERSHIP**
• Community engagement • Indigenous partnerships	• Board leadership • Culture • Transparency and disclosure • Risk management	• Active asset management • Corporate engagement • Proxy voting

THE ESG INVESTMENT SPECTRUM

To help the market's understanding many participants speak about an "ESG investment spectrum". While "traditional investing" (simply deploying capital on conventional risk/return parameters) anchors the left-hand side of the spectrum – we see the spectrum as offering different choices to investors, rather than necessarily being a chronology of the way investment options are developing.

Rather, investors can choose their ESG angle depending upon the asset class they are considering, their clients' needs and total portfolio balance.

Typically, in our private equity investments we tend to gravitate towards the ***responsible investing and the sustainable investing areas*** – ensuring that we negatively screen against companies with weak ESG practices but we also look to enhance the ESG principles in the companies and funds we invest in, giving our investments a stronger sustainability focus.

	TRADITIONAL	RESPONSIBLE	SUSTAINABLE	IMPACT
INVESTMENT SELECTION	ESG-related risks and opportunities are not explicitly considered in the investment process	ESG-related risks and opportunities are considered as part of the investment process	Focus is company sustainability and ESG analysis is a key element in the investment process	Only assets in sectors with positive ESG impact selected
VALUE SOURCE	Financial only	Financial value considered first. ESG is recognised as a source of value	Integration of ESG sustainability, principles as a consideration for financial value	Positive societal and environmental impact are of upmost importance
INVESTMENT STRUCTURE	No specific investment fund or ESG investment process	ESG embedded in investment process but no specific fund	Thematic fund	Dedicated impact fund
MANAGEMENT APPROACH	Passive and Active traditional risk/return approach	ESG-related risks and opportunities are managed using a range of approaches including screening, engagement and voting	Companies with strong sustainability credentials or are classified under a sustainable investment theme are selected and monitored	Active involvement in improvement of societal and environment impact of investments
IMPACT MEASUREMENT	No impact measurement undertaken	ESG metrics are used to monitor ESG performance	Has tailored performance indicators to measure ESG impact in addition to financial returns	

Source: QIC

FINANCIAL ONLY CONSIDERATIONS ⟵ ⟶ ESG CONSIDERATIONS

INTRODUCING QIC'S GLOBAL PRIVATE CAPITAL TEAM: AMPLIFYING ESG THROUGH AN ACTIVE MANAGEMENT APPROACH

We are a leading private equity manager specialising in creating and managing tailored global portfolios for institutional investors. With AU$6.6 billion (US$4.4 billion) under management,[1] we invest with an active, value-added mindset, providing unique access points and investment opportunities underpinned by deep global relationships across sectors and strategies.

We invest in small-mid market specialised buyouts with active co-investment and innovation opportunities through our venture and growth equity program. We work closely with our clients to offer a suite of customisable solutions which integrate fund investments via our strong network of leading General Partners (“GPs”), secondaries, and direct and co-investments in companies.

Our global platform and experienced team allow us to overlay any opportunity with judgement and ensure each aligns with our investment and ESG beliefs.

We also believe the structural characteristics of private equity provide a natural alignment for the integration of ESG into the investment spectrum.

ESG THROUGH THE LENS OF PRIVATE EQUITY

ACTIVE MANAGEMENT: When you invest in private equity opportunities, you are leveraging the capabilities of private equity managers to build value from the inside out, i.e. to directly impact a business’ strategy, focus and production. In such close proximity, these active managers can directly impact and embed ESG value generation from the board and executive level through to the end consumer.

INFLUENCING THE INDUSTRY LEADERS AND DISRUPTORS: Private equity targets can often be industry leaders or disruptors in their chosen industries, taking advantage of entrepreneurial governance and technological innovations that are reshaping every facet of the business, industry and consumer landscape. As private equity investments can occur at an earlier or pivotal stage of a company’s organisational development, there is more opportunity to ingrain ESG considerations and leverage technology, data and processes to create new measurable outcomes for sustainability. Sustainable investments can also generate the additional value of meeting rising consumer demand for ESG products and services.

TIME: Private equity deals are structured for between three to seven years, which enables investors to actively guide targets towards realising their long-term growth potential. Within this timeframe, ESG commitments, which take time to be embedded, can be introduced with a clear path towards building sustainability.

TEAM VIEWPOINT: CRYSTAL RUSSELL, PRINCIPAL

What is your vision and aspirations for the industry and team in relation to ESG?

ESG in private equity has come a long way and I think the future of the industry is bright. Private equity will evolve with greater diversity and increasing understanding of ESG’s value. I also see the next wave of progress in the implementation of key ESG opportunities identified in due diligence, and then the measurement and regular reporting of these initiatives.

I hope QIC will be industry leading and known as innovative, brave and responsible with the capital we’re charged with growing for our clients and future generations.

1 Assets under management as at 30 September 2019.

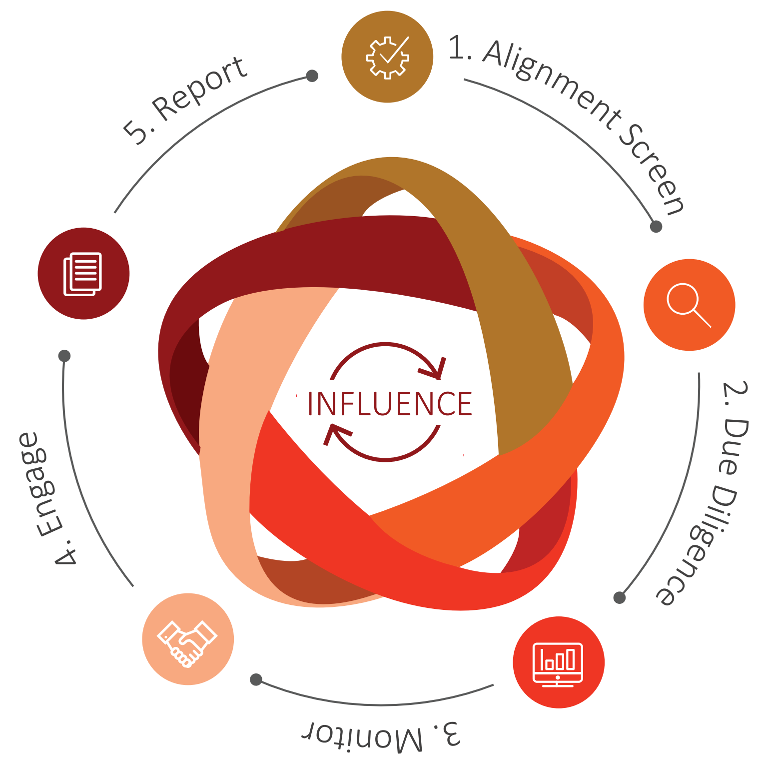
OUR ESG BELIEFS:

1	The consideration and implementation of ESG factors in the companies we invest in can protect long-run returns for our clients.
2	Our ESG beliefs inform which opportunities we pursue and which opportunities we do not. We invest where we see alignment and opportunity.
3	As private equity managers we have a unique opportunity to implement ESG initiatives that create value through active governance positions and a long-term investment horizon.
4	As a value-added investor, we actively engage on ESG factors and influence the industry to promote change and protect long-term returns for our clients.
5	We believe in doing what is right in innovative and pragmatic ways to keep pace with the expectations of our shareholders and clients.

We believe pro-active ESG management can be a material and positive driver of returns.

OUR ESG APPROACH: BRINGING PRINCIPLES TO LIFE

Our commitment to ESG principles is brought to life through our ESG approach, which is integrated along every stage of our investment process. The main aim at each stage is one of influence, through which the team can drive positive returns, generate ESG outcomes and maintain momentum towards a sustainable future and investment landscape. Throughout the investment process, the team partners with QIC's Responsible Investment team to ensure all potential investments are assessed fully from an ESG perspective.



1. ALIGNMENT SCREEN

When the team seeks and builds new relationships, it first ensures the firm's values and strategy are aligned to the team's core values.

The alignment of ESG considerations at this initial stage is through two avenues:

✓	1	The team first ensures they are engaging with General Partners (GPs) who exhibit strong ESG values.
✓	2	In terms of the co-investments, this initial stage also ensures companies are aligned with QIC's ESG investment philosophies.

Funds or companies with ESG challenges that cannot be resolved through QIC's investment period are eliminated quickly.

2. DUE DILIGENCE

Once a fund or co-investment opportunity is identified, the team works with QIC's Responsible Investment team to conduct due diligence, with bespoke approaches for fund investments or co-investments.

Fund Investment	Co-Investment
Goal: For a fund investment, we map the extent the manager considers ESG factors in their screening, due diligence and ongoing investment monitoring and reporting practices.	**Goal:** For co-investments, we look to both the company and the manager in respect to their past and on-going ESG commitments and practices.
Due diligence focus: • Management mindset and approach to ESG • ESG integration into investment process and identification of areas of improvement • Active ownership by manager to policies and procedures at a portfolio company level • Monitoring, reporting and prominence of ESG measures and KPIs at portfolio company level and fund level	**Due diligence steps:** • A heat map is used to identify risks and opportunities early on with both the company and the manager • We work with the QIC Responsible Investment team to use proprietary ESG scoring methodology and conduct third party due diligence to derive an ESG scorecard. If an ESG issue is raised and a path to rectification cannot be agreed, the opportunity is declined

Toolkits for identifying and monitoring ESG risk exposure

We also rely on quantitative tools to identify any ESG risk exposure.

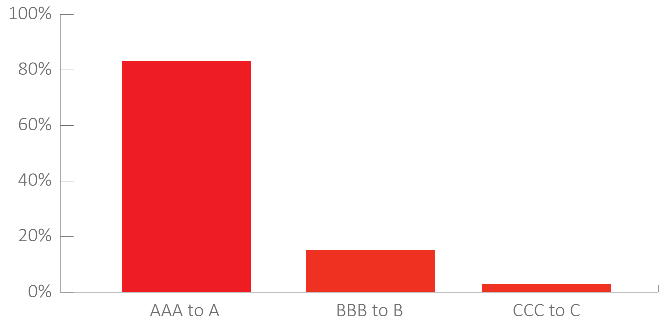
- **The QIC ESG Heatmap** allows our team to identify material ESG issues at the sub-industry level, pin-pointing any exposure at a portfolio level by dollar value. With this information, the team is able to ask more in-depth questions and have informed conversations with managers. In addition, the heatmap assists the team in reporting any identified ESG issues within the portfolio.
- **RepRisk** is a web-based ESG data provider which has the world's largest due diligence database on ESG and business conduct risks. We use RepRisk to help us further identify, assess and monitor ESG and business conduct risks and investments relating to managers and underlying portfolio companies. The use of real time data services, backed by artificial intelligence, provides a useful tool for the team when portfolio screening and monitoring, conducting company research and engagement. It also allows us to analyse whether the investments meet the PRI requirement for ESG integration.

3. MONITOR

We continually monitor our funds' underlying portfolio companies and our funds' overall exposure using the RepRisk database. In doing so, we receive real time notification of any emerging ESG issues, which can be addressed directly or through our GPs.

Another way we monitor ESG performance and exposure is through the annual QIC Global Private Capital Amplify Survey which tracks our GP's ESG capability and performance. See the below breakout box, QIC Global Private Capital Amplify Survey for more information.

RepRisk portfolio risk assessment



The above chart highlights that the Global Private Capital portfolio has been assessed by RepRisk as relatively low risk.

*Based on the portfolio company coverage by the RepRisk platform

Source: RepRisk as at 15 January 2019

4. ENGAGE

We are committed to expanding our sphere of influence by actively engaging with industry peers across a multitude of ESG issues to share best practice and insights. One such example of this is the team's annual Global Private Capital Amplify Survey, which is sent to managers to understand and benchmark their current policies and attitudes.

SPOTLIGHT ON QIC GLOBAL PRIVATE CAPITAL AMPLIFY SURVEY

Each year, we survey our GPs to track ESG performance. This survey is an opportunity to engage and influence the industry on ESG and associated issues. The below is a snapshot of our latest findings:

- While the number of managers becoming UN PRI signatories has grown, the team will continue to work with the remaining 42% of managers who are not signatories to ensure ESG risks and opportunities are managed appropriately.
- 85% of the respondents said they had a formal ESG policy and that ESG factors were integrated into their investment process. The team will continue to engage with the remaining managers to showcase the positive benefits of embedding ESG considerations.
- The survey also highlighted the complexity of ESG, and how there is no simple solution. For instance, when asked to identify the top five ESG issues they saw in relation to their portfolio, 51.5% of respondents nominated diversity. Yet when a follow up question was asked, "Does the firm have a formal diversity and inclusion policy or initiative", only 45% answered in the affirmative, with 55% saying they had no such measures in place.

Survey results as at 30 September 2019

5. REPORT

We are committed to not only measuring the ESG journey, but openly communicating its progress. This is how the team meets its goals while also setting the benchmark in influencing and engaging partners to adopt strong ESG fundamentals. The team believes the ESG journey is one of continuous improvement where improved transparency and reporting aids the informing of the next investment and monitoring cycle. Our reporting commitments are just one further way the team holds itself accountable.

ESG VALUE CREATION IN ACTION

ROTHY'S: INVESTING FOR OUR FUTURE

CASE STUDY

Rothy's believe that one person's trash is another person's treasure.

In 2016, QIC Global Private Capital gained exposure to Rothy's through one of its leading global venture manager relationships.

With the aim of attacking the "plastic problem" which is reaching the world's oceans, this San Francisco-based company devised a new technology to turn water bottles into fabric which in turn, is used to produce fashionable shoes. To date, they've repurposed 25 million water bottles and created footwear ranges for women, men and children.

The team are not only excited by Rothy's tagline, "When you slip on a pair of Rothy's you are helping out the environment one step at a time", they are equally invested in supporting the future benefits the technology can bring for other products – and in doing so repurpose the world's half-a-trillion plastic water bottles which will be produced in 2020.

Rothy's are currently exploring other fabrics with a view to encouraging consumers to reuse what is currently considered trash in a more sustainable way.

Learn more at rothys.com

THE ICON GROUP: CHANGING THE WORLD THROUGH CANCER CARE

CASE STUDY

In 2017, QIC, as part of a consortium, acquired a majority interest in The Icon Group.

Icon is the largest private provider of vertically integrated cancer-care treatment in Australia and has a growing international footprint with an established presence in Singapore and recent acquisitions and partnerships in Hong Kong, China, Vietnam and New Zealand. Icon's vision to deliver the best care possible, as close to home as possible, is central to their culture and values.

Over three decades of providing care, Icon has developed a unique, vertically integrated model which incorporates medical oncology, radiation oncology, pharmaceutical compounding and pharmacy management.

In 2019, The Icon Group placed 47th on Fortune Magazine's Annual 'Change the World' List[2], a ringing endorsement of the company's innovative approach to care and treatment of cancer through telemedicine, remote radiation therapy, and partnerships in under-served markets.

The origins of Icon's telehealth applications stem from an innovative, best-in-class radiation treatment which was developed to cover remote parts of Australia. This application has also underpinned Icon's international growth strategy, leveraging its strong, onshore capabilities to deliver exceptional cancer care in other markets.

The ability to scale this innovative solution has underpinned its recently established partnerships in China with QIC actively assisting The Icon Group in exploring further opportunities to increase access to cancer treatment across the Asian region.

Learn more at icongroup.global

2 Fortune's fifth annual Change the World list 2019.

ABAC CAPITAL: SUSTAINABLE VALUE INVESTING

CASE STUDY

Abac Capital believes ESG practices are a win-win; a win for stakeholders and a win for financial returns.

QIC first partnered with Abac Capital in 2015 through a co-investment into Metalcaucho, a leading car aftermarket supplier in the Spanish rubber and metal mechanical spare parts market.

QIC's investment with Abac is underpinned by a strong alignment in beliefs, culture and approach to company building. Abac's approach to value investing is guided by a sustainability framework which flows through deal sourcing, due diligence, portfolio management and reporting. As a signatory to the Principles for Responsible Investment (PRI), Abac's values, which include integrity, accountability, respect and social conscious, further speak to their commitment to inclusivity and doing the right thing.

Abac's commitment to sustainable value investing is measured against portfolio KPIs for each of the E, S and G and reported against annually. Abac demonstrated the win-win impact of their approach with Metalcaucho in its corporatisation of the family owned business. Since investment, Metalcaucho has materially improved its quality and safety standards (achieving the ISO 9001:2015 Quality Certificate) and reduced its carbon footprint through reduction in energy consumption and waste at its facilities. Metalcaucho also strengthened its corporate governance through relaunching its code of conduct, developing a whistle-blower policy, and enhancing hiring policies to increase diversity. This resulted in an uplift in women from 1% to c.24% in the space of approximately four years.

Abac is determined to realise more value through its ESG initiatives, driven by their dedicated portfolio company ESG champions and ethos.

Learn more at abaccapital.com/en

QIC

IMPORTANT INFORMATION