COMMITTED TO SUSTAINABLE INVESTMENTS

LMG Sustainability Report 2020

Contents

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QIC licenses and applies the SASB Materiality Map® in our work.

Welcome from QIC LMG Managing Director

In a financial year marked by regulator advocacy highlighting climate risk as an economic risk, then an extraordinary, pandemic-induced focus on social factors and the importance of staff and clients to a business' ultimate sustainability, the core Environmental, Social and Governance (ESG) beliefs of QIC's Liquid Markets Group (LMG) remain and have served our portfolios well:

We believe environmental, social and governance factors can have a material impact on the operational and financial performance of issuers and counterparties and, therefore, returns on investment portfolios.

We work hard to protect portfolios and enhance returns by ensuring ESG considerations are embedded in the investment framework. We're making this a reality through ongoing formal and informal ESG training – ensuring all our investment professionals are familiar and comfortable with sustainability concepts, risks and terminology.

We also value innovation- where ESG tools are not available or suitable for investment portfolios or asset classes, we innovate and develop proprietary systems. This allows us to analyse portfolio level ESG risks and opportunities.

This approach is embodied across our work- we:

- **Model carbon emissions** even where issuers are not required to report data
- Look at **portfolio level climate risk** and analyse transition plans
- Consider **ESG challenges for sovereigns**
- Recognise the **United Nations' Sustainable Development Goals**, with mapping commenced for our investment portfolios
- **Aggregate impact reporting** for Green, Social and Sustainable Bonds
- Look far down the supply chain for **Modern Slavery risks**
- Use **artificial intelligence to monitor** ESG issues
- **Embed ESG assessment and monitoring** of Private Debt deals
- Have **meaningful engagements** with issuers
- Can take **market thought leadership positions** to benefit all investors.

"I am very proud of the ongoing efforts of the LMG team to ensure investments are sustainable – this year has certainly highlighted the importance both financial and non-financial factors have on the economy."

"On a personal note, I am delighted our ESG focus has protected portfolios and delivered strong external recognition: A+ PRI scores and KangaNews Sustainability Fund Manager of the Year."

Susan Buckley
Manager Director, Liquid Markets Group

FY 2020 Summary

Within QIC's Liquid Markets Group (LMG), we focus on embedding responsible investment practices through our Screen, Integrate, Engage framework. This report demonstrates our process in action.

Responsible investment is a dynamic, evolving team effort – we do this within portfolios, not alongside them. We recognise that to embed Environmental, Social and Governance (ESG) considerations at a portfolio level and truly fulfill our responsible investment commitments, it is essential to have a strong understanding of ESG risks and opportunities, and ESG integration is therefore a team wide KPI.

This integrated approach allows us to safeguard the long-term sustainability of our clients' investments. It also enables our team to take a proactive, agile and innovative approach.

Our ability to leverage emerging practices in modelling and analysis of ESG factors empowers LMG to capture unique opportunities, take clear positions on material issues, and engage across our portfolio investments to facilitate positive change.

We do all of this because responsible investment is more than just a nice-to-have – it makes good business sense.

The year has been marked by some wonderful external recognition of LMG's responsible investment process – this is not why we do it, but it does motivate us to continue our efforts[1].

"This year has been marked by commitments to ensuring investment footprints contribute to a sustainable society."

"QIC's Real Estate team has aspired to net zero emissions, as have major clients."

"Sustainability stands out: bushfires showed physical vulnerability; the pandemic has human and economic cost; Australia has taken a stand against Modern Slavery in operations, supply chains and investment portfolios. Society has been vocal about its expectations of trusted corporates."

"The challenge we accept as liquid markets investors is to finance countries and companies who can help with the sustainability journey."

PRI Principles for Responsible Investment A+ LMG 2020

KANGANEWS AWARDS 2019 Australian Sustainability Fund Manager of the Year QIC

Marayka Ward
Senior Credit & ESG Manager, Liquid Markets Group

1 LMG received A+ across all four fixed interest categories.
The PRI report can be found here: https://www.qic.com/about-qic/corporate-information/responsible-investment/-/media/1660BE5F32F2487FB4ACB3FE9009AB0B.ashx

Our Approach To ESG

We believe that Environmental, Social and Governance factors can have a material impact on the long-term outcomes of the investment portfolios and assets we invest in. We consider sustainability factors in all our investment decision-making processes.

LMG's industry-leading three-phase ESG framework is integral to this process:

Screen

- We filter companies which don't align with our beliefs
- Positive screens allow us to invest in companies with sustainable practices and strong transition stories

Integrate

- We integrate our ESG practices and values across our team
- ESG training is provided for all our investment staff, and its integration is embedded in our KPIs
- We leverage innovation and technology to provide active monitoring and analysis

Engage

- We undertake meaningful engagement with companies to understand their management of ESG risks and opportunities, and to promote best practice
- We undertake ESG thought leadership, and actively participate in industry forums

Embedding ESG Considerations into the Investment Process

Embedding Team-Wide Sustainability Integration

To ensure our robust and portfolio-wide approach to embedding ESG considerations, we focus on integrating sustainability priorities through all-of-team training and accountability.

ESG goals and responsibilities are built into our team's KPI framework. Every member of the LMG team has participated in some form of in-house ESG training over the last year – both formal and informal – which aims to highlight and familiarise important ESG concepts and themes.

Most recently, the team received training on Modern Slavery, how the finance industry can address risks and how it applies to LMG portfolios.

We recognise to embed ESG considerations at portfolio level and to fulfill our responsible investment commitments, the understanding of ESG risks and opportunities needs to sit across the team.

A Top-Down And Bottom-Up Approach To Understanding ESG Risks And Opportunities

A key tool we utilise to understand risks and opportunities and forecast future ESG-driven industry moves is the Sustainability Accounting Standards Board's (SASB) Materiality Map. Based on a Harvard University white paper on industry-based sustainability reporting, the SASB Materiality Map considers a universe of 26 sustainability issues across five sustainability dimensions.

LMG uses the Materiality Map against portfolio holdings, allowing us to take a cross-industry view that ensures sustainability risks and opportunities are considered in a comparable, consistent way that also accounts for financial materiality. This process allows us to make informed judgments on potential issues such as stranded asset risk.

This top-down approach compliments our credit analysis process, which ensures ESG considerations are also incorporated from a bottom-up perspective. This unique approach allows us to form a detailed picture of the ESG risk factors and our credit analysts are empowered to recommend for or against positions based on ESG concerns.

Modelling Sovereign ESG Risks

We believe the consideration of sovereign ESG risks is important whether we are taking a currency position, investing in sovereign bonds or financing a company that is established under the laws of another jurisdiction.

Governments set the tone for governance, are responsible for social wellbeing and shape environmental impact. When considering sovereign ESG risks we draw on QIC's proprietary Sovereign ESG Model, which incorporates a range of World Bank, United Nations and university data sets such as:

Governance	Environment	Social
Control of corruption	Natural resource depletion	Youth unemployment
Government effectiveness	Climate change adaptation	% Population below poverty line
Political stability / absence of violence	CO2 emissions per capita (tonnes)	Income inequality
Regulatory quality	% Renewable energy consumption	Food security
Rule of law	Water stress	
Voice & accountability		

Source: QIC

We use our Sovereign ESG Model in several ways:

- As an input to the **quality factors used for tilting sovereign bond positions**
- To understand **where government resources might need to be diverted** within countries
- Mapped against corporate holdings to **create a heat map of high and low ESG risks** at portfolio level

LMG has also contributed to the UN PRI's Sovereign Working Group and Sovereign Debt Advisory Committee. These PRI groups develop guidance for investors on sovereign engagement and integrating ESG considerations into sovereign debt investments, including in their recently released Guide for Sovereign Investors.

Country	Fund % NAV	Overall ESG Score	Governance Factor Summary	Environment Factor Summary	Social Factor Summary
Switzerland					
Finland					
Norway					
New Zealand					
Sweden					
Netherlands					
Denmark					
Singapore					
Luxembourg					
Germany					
Canada					
Austria					
Hong Kong					
Australia					
Japan					
Ireland					
United Kingdom					

Integrating Sustainability into Portfolio Management

We are rolling out portfolio-level ESG reports.

These reports sit alongside our real-time ESG data tools and allow portfolio managers to understand sustainability risks and opportunities at the portfolio level.


QIC
BONDPLUS
ESG Report
30 October 2019

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QIC

Applying LMG's Dynamic ESG Exclusions List

Our credit analysts consider qualitative, quantitative and ESG factors when analysing investments and have the authority to exclude issuers based on ESG concerns.

This means companies with poor ESG practices are unlikely to be recommended for investment and are effectively screened out of the investment universe.

ESG issues can also arise during holding periods – during the financial year we also configured LMG's Dynamic ESG Exclusions list as a pre-trade warning in our trading system. The Dynamic Exclusions list applies in addition to QIC's Board-endorsed ESG exclusions and any client-endorsed exclusions and has been used over the years where we assess an issuer as having temporary unresolved or unaddressed ESG risks.

While we consider the materiality and impact on portfolios of the exclusion, our broader concern is reputational – the optics for LMG and our clients in being seen to endorse certain behaviours through funding the issuer.

If the issuer is a current exposure, we assess how our exclusion can have the most impactful signal. For example, for some issuers this may be via their cash instruments. We may not always sell our holdings entirely.

If we are not currently holding the issuer's bonds, the Dynamic Exclusions List applies to prevent financing the issuer until the ESG matter is addressed.

Taking Action on Modern Slavery

Australia has joined other jurisdictions to combat Modern Slavery via legislation that requires annual reporting to the Commonwealth Government on the risk of modern slavery.

QIC's Modern Slavery Statement will be published this year, incorporating the steps being taken to identify and respond to the risk of modern slavery in investment portfolios, as well as in our operations and supply chains, and those of controlled entities. For more on QIC's approach to modern slavery, see the 2020 QIC Sustainability Report.

In LMG, while we recognise Modern Slavery exists in every country, we do not want to fund instances of Modern Slavery. We want issuers to understand, address, minimise and work to eliminate Modern Slavery risks in their operations and supply chains.

Mapping our Portfolios

We have mapped portfolios using a risk assessment estimation methodology, which uses a multi-regional input-output table to map the supply chain of industries and countries.

The methodology maps up to 10 tiers of the supply chain.

The risk assessment does not identify known or unknown instances of slavery. Rather it highlights geographies and industries for further investigation.

Screening Methodology

We review issuers for labour rights breaches, beyond slavery, and where relevant this may form engagement points.

Our weekly screening methodology flags potential concerns around:

- Global Compact compliance and controversies
- International Labour Organisation compliance and controversies
- Child labour
- Supply chain labour standards
- Labour rights controversies.

We also use artificial intelligence to supplement our analysis; checks include currency of issue and responses.

Training and Integration

During the year all LMG investment staff have completed in-house Modern Slavery training to understand financing risks, terminology, legislation and analysis tools.

Active Ownership

We are active owners through engagement, through responding to consent solicitations, and through our participation in market governance and responsible investment committees.

Engagement

QIC's Board-endorsed ESG focus areas incorporate six themes upon which our fixed interest-specific engagement program is built:

Climate Risk

- Adaptation to physical impacts
- Impacts of transition to a low carbon economy

Environmental Sustainability

- Environmental impacts
- Resource efficiency
- QIC's own footprint

Corporate Governance

- Board leadership
- Culture
- Transparency and disclosure

Active Ownership

- Active asset management
- Corporate engagement
- Proxy voting

People

- Workplace health and safety
- Labour rights
- Human rights in supply chains
- Diversity and inclusion

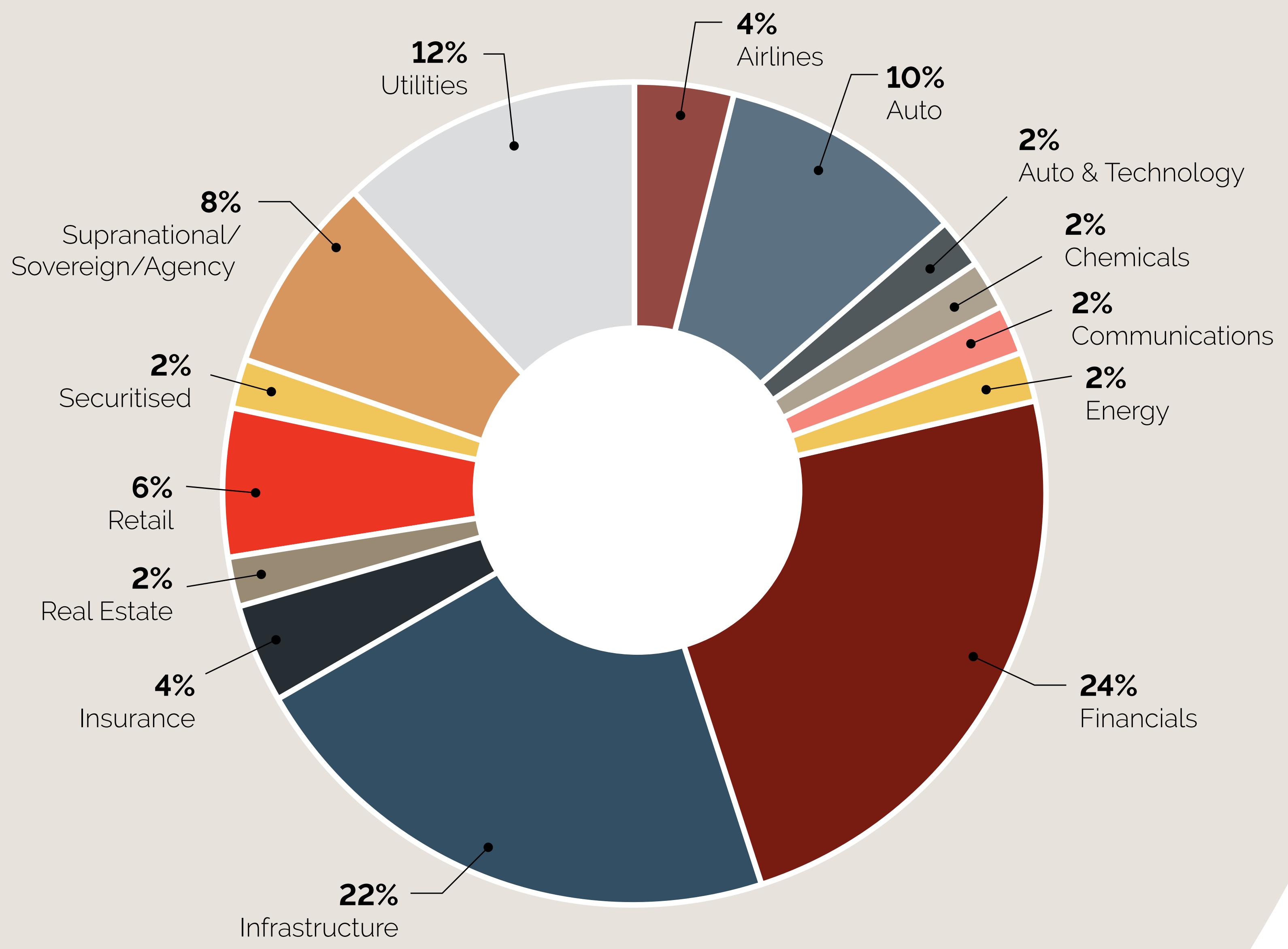
Community

- Community engagement
- Indigenous partnerships

LMG ESG Engagements

- Driven by QIC ESG focus areas
- Identifies leaders, laggards, thematics
- Specific to fixed interest
- Conducted by Credit Analysts & Portfolio Managers
- Transparent record keeping
- Global issuers
- Follow up engagements
- Impact analysis

ESG is becoming a mainstream topic at fixed interest investor updates. During FY20 we participated in 51 engagements.



FY20 Engagements by Industry

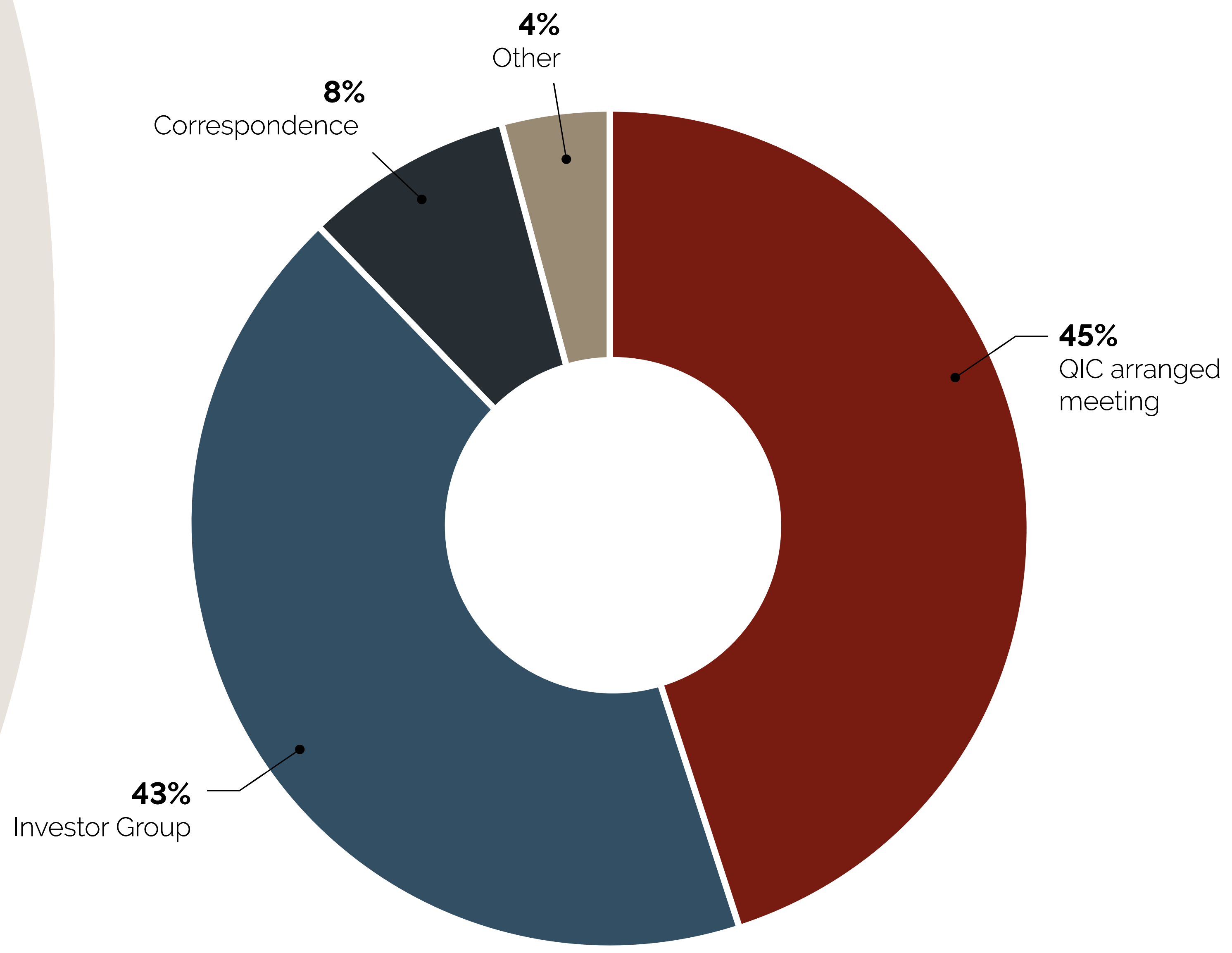


Figure 1: Corporate engagements by engagement format

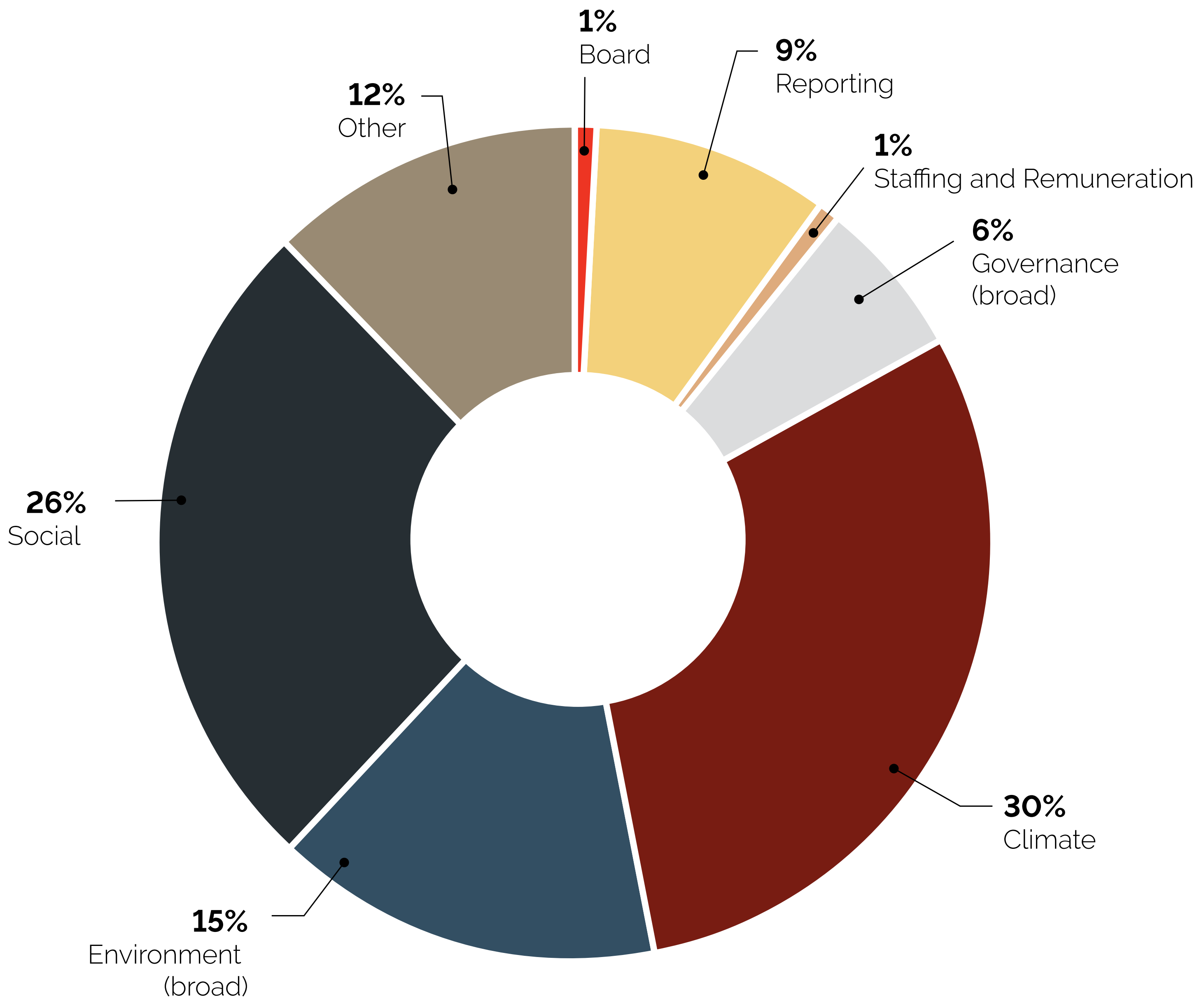


Figure 2: Corporate engagements by topic

Summary of FY20 Engagement Discussion Points

Industry	Discussion Points
Airlines	• Emissions reduction targets • Carbon offsets • Technology • Plastics • Recycling • Staff entitlements
Autos	• Decarbonisation • Climate risk • Electric vehicles • Raw material sourcing • Supply chain sustainability • Modern Slavery • Labour rights • Customer safety
Auto & Technology	• Raw material sourcing • Supply chain sustainability • Modern Slavery
Chemicals	• Workplace health and safety • Environmental risk • Carbon emissions
Communications	• Privacy • Data security
Energy	• Low carbon development plants • Emissions
Insurance	• Governance • Climate change • Environmental risk • Social benefit • Impact investing

Industry	Discussion Points
Real Estate	• Customer safety • Green buildings
Financials	• Climate risk • Carbon emissions • Renewable energy • Power Purchase Agreements • Green buildings • Low carbon transport • Palm oil • Impact reporting • TCFDs • SDGs • Governance • Board reporting • AUSTRAC / regulatory reporting • Responsible financing and the Principles for Responsible Banking • Animal cruelty • Labour exploitation and Modern Slavery • GSS Bonds
Infrastructure	• Climate risk resilience and climate management • Power Purchase Agreements • Wildlife management • Noise pollution • Sustainability targets • Governance • Board structure • Reporting frameworks • Workplace health and safety • Customer health and safety

Industry	Discussion Points
Retail	• Sustainability initiatives • Power Purchase Agreements • Recycling • Plastics • Governance • Staff entitlements • Labour management • Safety • Supply chains
Securitised	• Impact reporting • Hardship
Supranational/ Sovereign / Agency	• Environmental risk • Fuel consumption • Noise • Net zero emissions targets and pathways • Impact reporting
Utilities	• Climate and climate policies • Carbon and emissions targets • Carbon price modelling • Power Purchasing Agreements • Hydrogen • Renewable energy • Natural disasters • Workplace health and safety • Customer safety • Supply chains • Reporting and lack of reporting

Proxy Voting

Shareholders can advise Boards and companies of their preferences through proxy voting at company meetings.

Bondholders are given voting options through consent solicitations when issuers are seeking to change the terms governing bond deals.

During the financial year we received and voted in favour of three consent solicitations:

- AB InBev
- FMG Resources
- GPT Wholesale Shopping Centre Fund.

Case Study

How Sustainability Engagement Can Influence Corporate Behaviour

QIC's Liquid Markets Group has undertaken regular engagements over a number of years with a US headquartered automaker, which has seen ESG considerations brought to the forefront by the company.

Through these engagements we discussed:

- ESG from the bondholder perspective
- Physical climate risk
- Supply chain traceability, ethical cobalt sourcing and child labour

QIC received feedback during the engagement process advising we were the only investor to seek ESG-related clarifications and actively avoid investments that did not meet our strict ESG standards.

Over time we have observed a clear evolution in the automaker's approach to sustainability, with the automaker now including ESG information in their Fixed Interest presentations and receiving ESG questions from a range of their fixed interest investors.

The automaker's main battery partner is also now involved in a cobalt responsible sourcing blockchain pilot, which is providing increased supply chain traceability, and it is hoped this will lead to a broader raw material blockchain platform.

Case Study

How Asking ESG Questions Provides Deeper Insights into Corporate Processes

QIC had the opportunity to meet with a range of line managers from an unlisted domestic utility with over A$2 billion in bonds to understand their corporate sustainability processes. This engagement reinforced to the issuer the value we see in hiring of sustainability staff and introduction of ESG reporting.

After initial conversations it was clear that they had not previously been approached in relation to ESG practices.

During the initial engagement meeting with line managers we were able to gain a greater understanding of their current processes as well as provide insight on investor perspectives and the importance of ensuring ESG practices are considered and implemented.

Case Study

How Engagement Helps Issuers Tackle Sustainability Challenges

QIC has provided sustainability questions around scope one and two emissions to a German issuer who will use these questions to aid a submission to improve their sustainability credentials.

The German issuer plans to approach their landlord about undertaking an energy efficient refurbishment of their corporate headquarters. Our sustainability questions around scope one and two emissions will help support their submission for approval.

Case Study

How Sustainability Engagement is a Two-Way Street

To ensure we continue to look for ways to stay up to date with market developments, and as a way of sharing information, QIC meets with a green bond issuer ahead of global roadshows.

This meeting allows QIC to stay up to date with latest market developments as well as discuss impact reporting trends, as the issuer seeks to understand the latest investor views on financial and ESG reporting.

Green, Social, Sustainability (GSS) Bonds

At 30 June 2020 we held a mix of sustainability bonds on behalf of our investment mandates:

Bond Type	Australian Dollar Equivalent Market Value
Green	$247,310,269.80
Social	$46,556,861.64
Sustainable	$22,352,471.61
Other	$24,532,830.81
Total	$340,752,433.86

In addition, we turned over $380.5 million (Australian dollar equivalent market value) during the financial year:

Bond Type	Buys	Sells
Green	$138,192,388.71	$51,897,717.00
Social	$22,846,500.85	$26,133,150.40
Sustainable	$68,879,392.09	$47,995,883.30
Other	$24,623,703.45	
Total	$254,541,985.10	$126,026,750.70

Impact reporting is an area we regularly speak about in the market. Sustainability bonds have been around for over a decade and reporting frameworks continue to evolve.

In Australia deal sizes have grown with investor appetite.

We are starting to see the initial wave of maturities of larger bonds that were held by institutional investors.

We are also starting to see more issuance from corporate borrowers in addition to government related and financial institutions.

Impact reporting across sustainability bonds continues to be an area where we believe improvements can be made to timeliness and data though we acknowledge the efforts of issuers to date.

We are seeing issuers seek to align their impact reporting with corporate reporting cycles. This is a move we support because we believe that it will help to embed sustainability practices within organisations, even if it means a slight delay to the initial impact report. We are also seeing an uptick in reporting of contributions to or alignment with the UN's Sustainable Development Goals (SDGs).

Case Study

How Social Bonds are Bringing Affordable Housing to the Market.

QIC's Liquid Markets team are proud to invest in initiatives that provide strong social outcomes for the community. An example of this is our initial investment in The Australian Government owned National Housing Finance and Investment Corporation ('NHFIC') social bond, which was first issued by the NHFIC in March 2019.

The Social Bond was developed in line with the International Capital Market Association's Social Bond Principles 2018 and was supported by a Commonwealth Government Guarantee. The $315 million bond proceeds has been allocated as loans to eight Community Housing Providers (CHPs) allowing them to provide a range of affordable housing options for people with low to moderate incomes, disabilities, mental illness, chronic illness, single parents and the Indigenous community. At the same time the aggregated financing is projected to save CHPs around $47 million in interest charges over 10 years.

NHFIC followed up with a second $315 million Commonwealth Government Guaranteed social bond in November 2019, again saving Community Housing Providers close to $50 million in interest payments over 10 years. In June 2020 NHFIC issued the largest social bond of an Australian issuer raising $562 million in its third Commonwealth Government Guaranteed bond. Interest savings are recycled back into affordable housing initiatives.

Cumulatively, through the three bonds issued to date, Social Bond investors will support the provision of over 5,000 affordable houses.

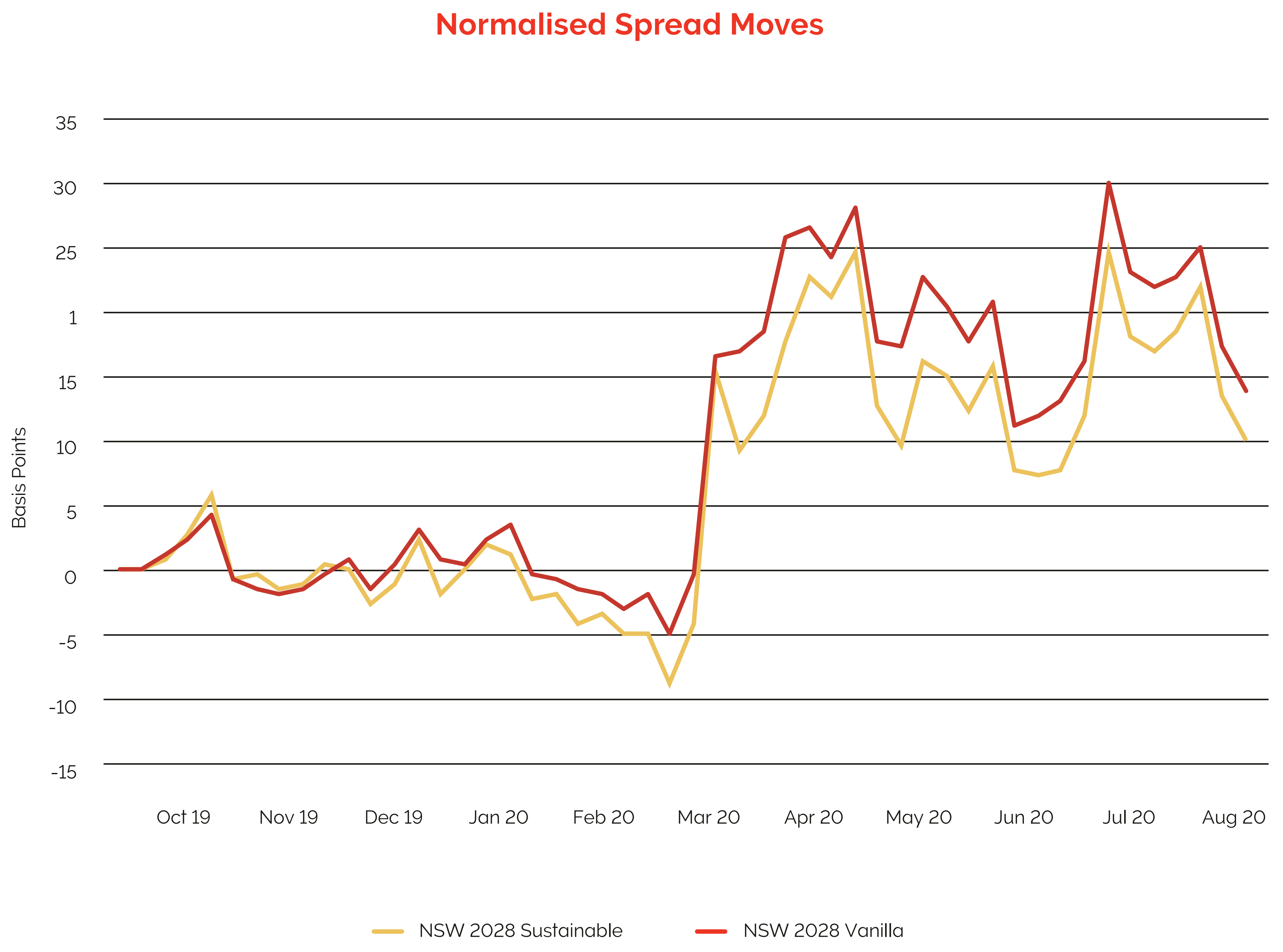
A$1.192 Billion Social Bonds → **Over A$175m interest savings for CHPs** → **Government guarantee for bondholders** → **Over 5,000 affordable houses**

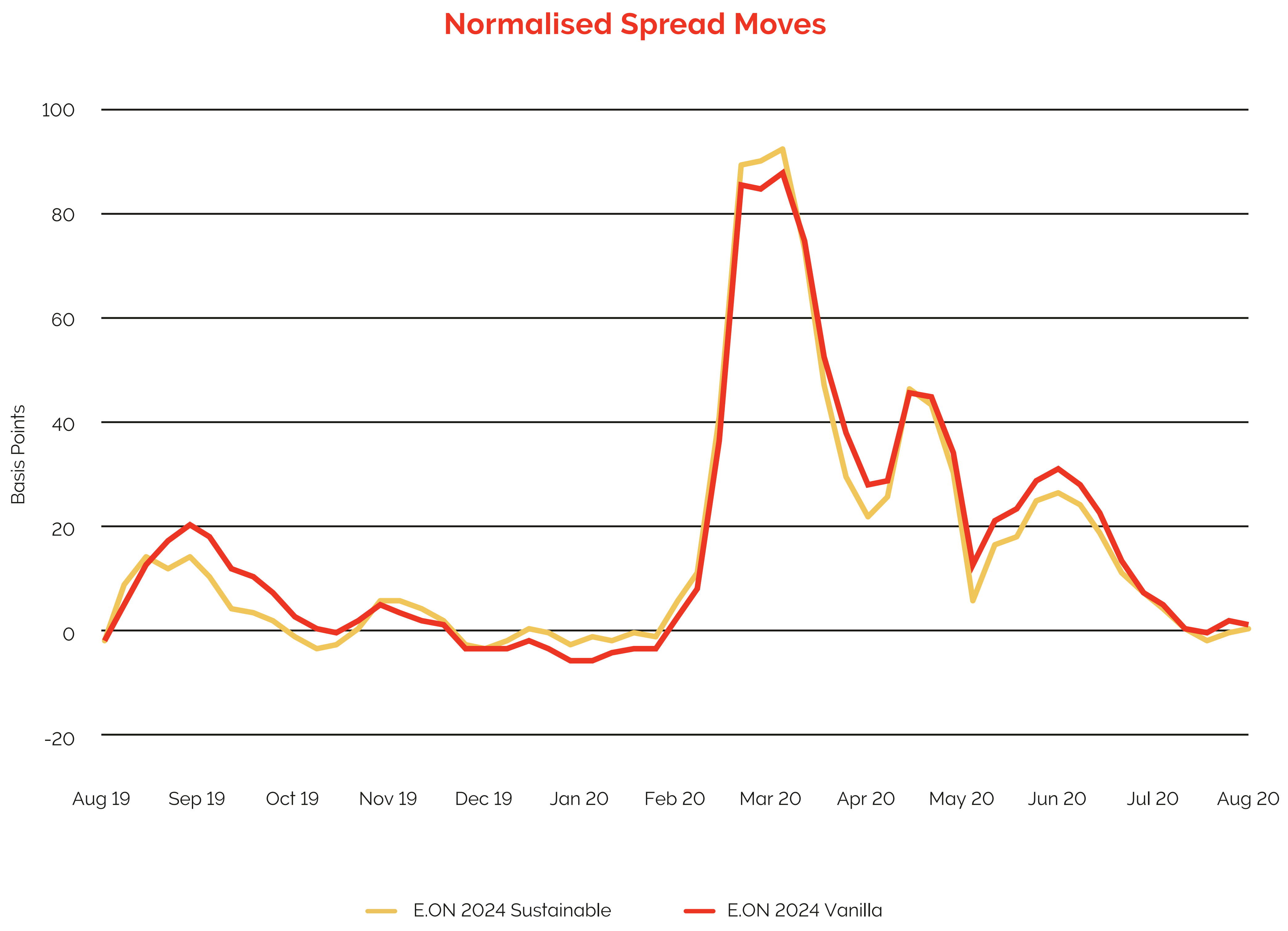
The following table outlines the types of projects financed by our GSS Bonds*:

Bond Type	Project Universe	Reported Impact (estimated)*
Green	Renewable energy	• 3,200 electric vehicle charging stations • 6.8 gigawatts of renewable energy storage and grid connections
Green	Green buildings	• 554,581 square meters of new green buildings • Green retrofitting of 257,818 square meters of buildings • Solar on shopping centres to reduce grid consumption by ~30%
Green	Wind power	• 677 megawatts of wind power in Scotland, Germany and the United States
Green	Renewable energy	• Solar panels, LED light upgrades and HVAC optimisation for supermarkets avoiding 115,712 tonnes of carbon emissions
Green	Healthcare	• Circular economy used for >10% of sales • 95% of operations powered by renewable energy • >80% of waste recycled
Green	Mortgages	• 1,300 low carbon residential buildings
Green	Multiple	• Cumulatively issuers estimate they have avoided almost 40 million tonnes of carbon emissions due to projects funded by our green bonds
Social	Affordable housing	• A$175 million interest saved from aggregating borrowings • Over 1,700 new affordable homes • Over 5,400 existing affordable homes supported
Social	Low socio-economic emerging markets communities	• Telecommunications, media and technology for 43 million people • 6.3 million loans to women-led enterprises 6.3 million loans to women-led enterprises • Over 17 million micro-finance loans • Expanded access to medicine through nearly 18,000 outlets • Education for nearly 140,000 students
Social	Workplace gender equality	• Finance for companies that achieve gender targets related to female employment, gender equality on boards and gender equality in management
Sustainability	Local governments	• Best in class local government borrowers
Sustainability	Project finance and corporate loans	• Over $1.2 billion to hospitals and aged care • Over $160 million to drinking water • Nearly $500 million to clean transport
Sustainability	State governments	• Nearly 40 km of clean transport • Over 1 million native and drought tolerant trees planted • Developing green energy co-generation capabilities for waste treatment

*These are some examples of the reported estimated impact of selected bonds; it is not a complete, aggregate impact report as some projects are difficult to measure and some deals are not ready for impact reporting. Data sources are reports provided by the issuers of the bonds, as aggregated by LMG.

Apart from the impactful projects being funded, green, social and sustainable bonds have continued to perform in line with, or marginally outperform, vanilla bonds of a similar maturity. The charts below show examples of this:





Source: QIC & Bloomberg

United Nations' Sustainable Development Goals

The United Nations' Sustainable Development Goals (SDGs) were established in 2015, as part of the 2030 Agenda for Sustainable Development.

These seventeen goals are designed to mobilise efforts to "end all forms of poverty, fight inequalities and tackle climate change, while ensuring that no one is left behind".

During the past year, QIC has undertaken an exercise to map the alignment of some of our unlisted assets to the SDGs. We have used resources from industry leaders, including APG and PGGM's 'Sustainable Development Investment Asset Owner Platform Taxonomy' (SDI-AOP Taxonomy), to create a robust framework that considers our investment in, contribution to and alignment with our SDGs. We have also looked to ANZ's SDG Bond Framework in our process. There is no universal standard or taxonomy to map investment mandates and we are conscious of not overclaiming SDG investment.

For more information on QIC's approach to SDG mapping, view QIC's 2020 Sustainability Report.

QIC's methodology is as follows:

Invest

The investment has been made with the intention, or the business is predominantly dedicated to achieving, addressing or providing solutions for social and environmental outcomes. The investment/ business must make a positive contribution and not be in a serious, known conflict with any other SDGs or RI policy objectives.

Contribute

The core function of the organisation/business makes significant contributions to achieving the SDGs. 'Contribute' considers the positive contribution that is being made to the SDGs. We recognise that some assets that are listed as positively contributing may be in potential conflict with another SDG or Responsible Investment policy and in future we will work towards mapping the negative contributions alongside the positive. For example, a thermal coal-based utilities company that provides access to basic services but may be in conflict with global emissions targets.

Align

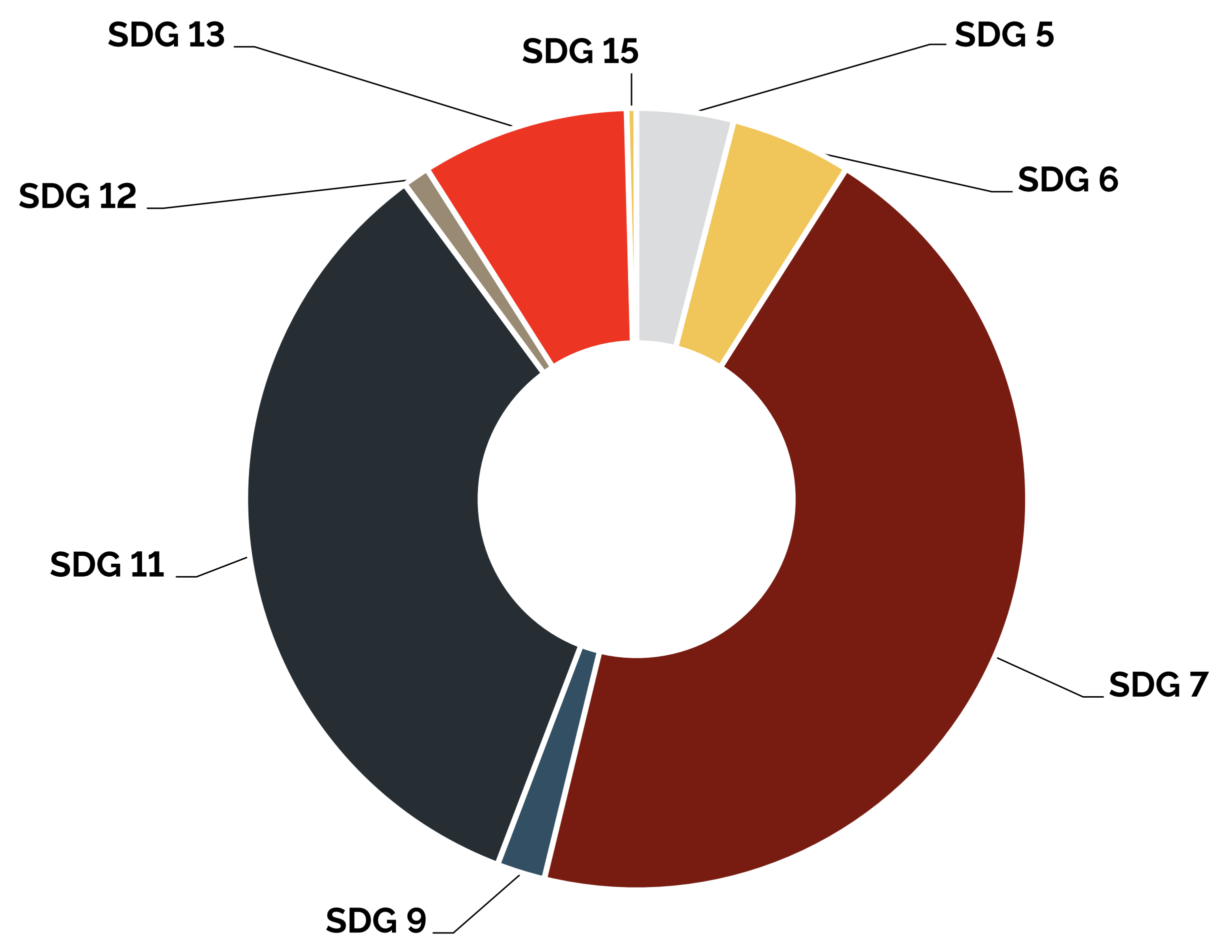
The organisation's, business' or asset's activities and operations align with the Sustainable Development Goals (SDGs). Investments that are listed here are not necessarily making a net positive contribution to the SDGs but could be monitoring their operations to measure, account for and control their contributions to the SDGs (both positive and negative). For example, an airport measuring the reduction in the amount of waste to landfill.

In LMG, we are working through our holdings, classifying those that 'Invest' in the SDGs starting with Green Social and Sustainable Bonds and Supranational issuers. We analyse the investment pools or loan books of the issuers and attribute the underlying assets to SDGs – the accompanying charts give example aggregated attributions:

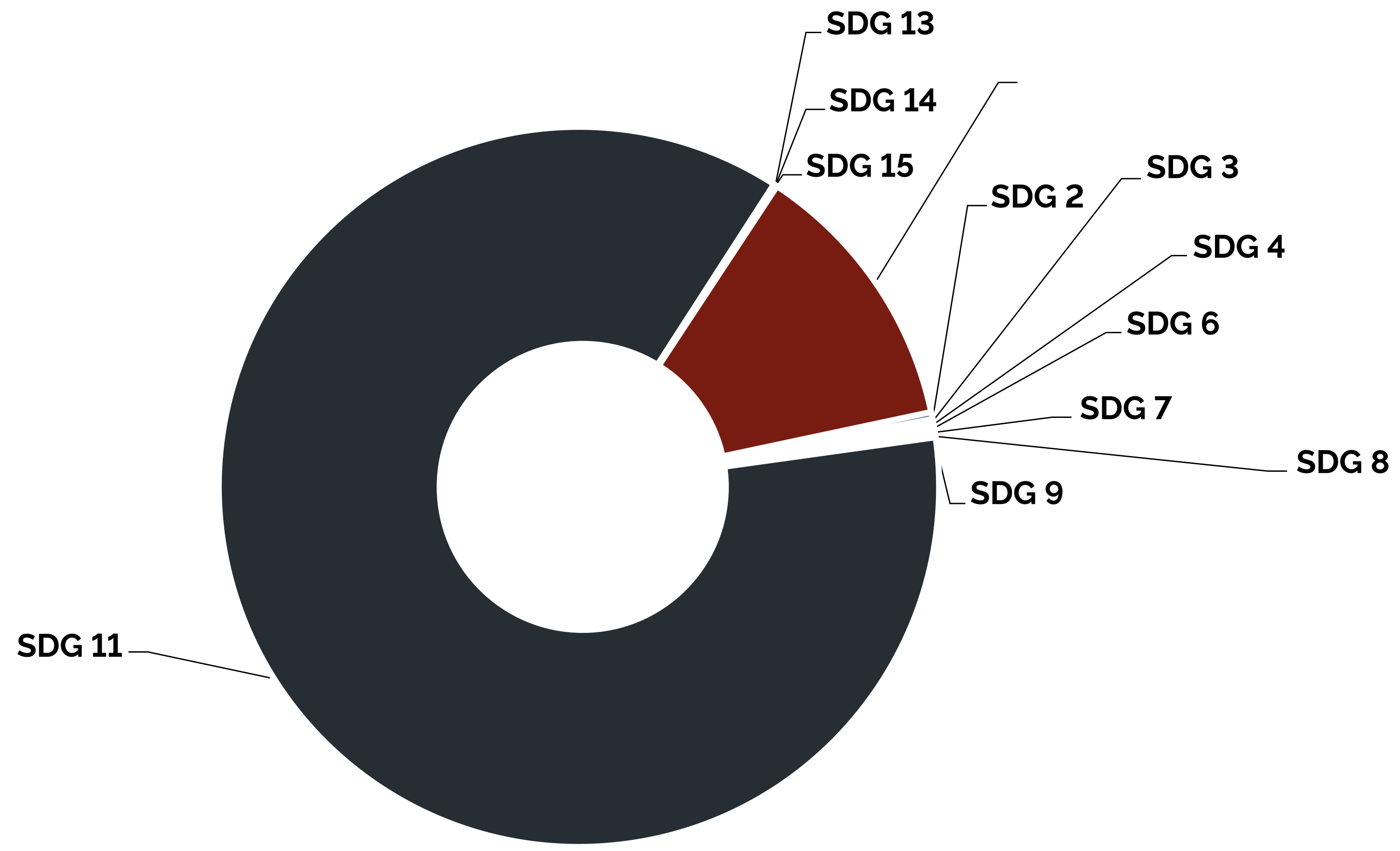
On the following page you will see we have not mapped investment mandate holdings that are aligned with or contributing to the SDGs using the SDI-AOP taxonomy. However, we have reproduced the alignment and contribution disclosures some of the companies in our portfolios have stated, without auditing the mapping (i.e. we take the company's assertion as accurate); some statements seem 'ambitious' but we applaud the motivation.

The table on the next page is an example of the SDGs some bond issuers have said they are aligned with, contributing to or are meaningful for their businesses; it has been compiled by LMG from publicly available information.

GREEN, SOCIAL, SUSTAINABLE BONDS



SUPRANATIONAL BONDS



Source: QIC

Company	1 No Poverty	2 Zero Hunger	3 Good Health and Well-Being	4 Quality Education	5 Gender Equality	6 Clean Water and Sanitation	7 Affordable and Clean Energy	8 Decent Work and Economic Growth	9 Industry, Innovation and Infrastructure	10 Reduced Inequalities	11 Sustainable Cities and Communities	12 Responsible Consumption and Production	13 Climate Action	14 Life Below Water	15 Life on Land	16 Peace, Justice and Strong Institutions	17 Partnerships for the Goals
AGL							•		•				•				
Transurban			•		•		•	•	•		•	•	•				•
AT&T			•	•	•			•	•		•		•			•	•
ANZ (SDG Bond)			•	•		•	•	•	•	•	•	•			•		
Auckland Airport	•		•	•	•			•	•	•	•	•	•	•			•
Ausgrid					•		•	•			•		•				
Rentenbank							•						•				
Macquarie Group			•				•	•				•	•				•
Standard Chartered						•	•	•	•								
HSBC				•			•	•			•	•	•				
Deutsche Bahn			•					•	•		•	•	•				
Svenska Handelsbanken					•			•	•		•		•			•	
Toyota			•	•	•			•	•	•	•	•	•		•		•
Credit Suisse				•	•		•	•			•				•		
Vodafone				•	•			•	•				•				
NAB							•	•	•		•				•		
RaboBank		•					•	•			•	•	•		•		•
Westpac (Green Bond)						•	•				•	•	•				
Woolworths	•	•	•		•		•	•		•		•	•		•		•
Verizon				•			•	•					•			•	
Optus			•	•	•		•	•	•	•	•	•	•				•
Incitec Pivot	•		•					•									
John Deere	•	•		•													•
Coles		•	•		•			•		•		•	•	•	•		•

Source: QIC, United Nations and companies listed

Climate Risk

While we look at transition plans as part of our credit assessment process, we have also been evaluating portfolio level physical climate risk and intend continuing this work.

So far, we have looked at Combined Warming Potential of some portfolios and their benchmarks, where relevant.

Current state analysis by industry tells us what temperature trajectory an industry is on if businesses do not adjust their current processes. We also know from our transition analysis the Paris Agreement has inspired companies to assess their climate impact and set reduction targets, so the current state will not continue.

Our next step is to incorporate transition plans and targets to assess their impact and to determine in a quantitative way whether companies and industries are likely to achieve a 2 or ideally 1.5-degree trajectory.

We see great potential for our use of this data. We could:

- Combine it with our proprietary relative value tools to assess whether the market is pricing in climate risk
- Predict stranded asset risk
- Use it to forecast which bond issuers might outperform or underperform their peers as climate risk influences bond pricing
- Engage with companies we think risk lagging their peers.

We also see value in physical climate risk mapping. While fixed interest markets are not currently pricing in physical climate risk directly, we believe understanding the likely impact on companies and portfolios from events will be powerful and will allow investors to determine whether pricing is appropriate along the curve.

We already apply shadow carbon pricing to our investments. Due to jurisdictional differences in climate and carbon emissions reporting requirements, we supplement reported data with our proprietary carbon emissions model to ensure full coverage of portfolio holdings. However, we are seeing an increase in the reporting of Scope 1, Scope 2 and Scope 3 emissions.

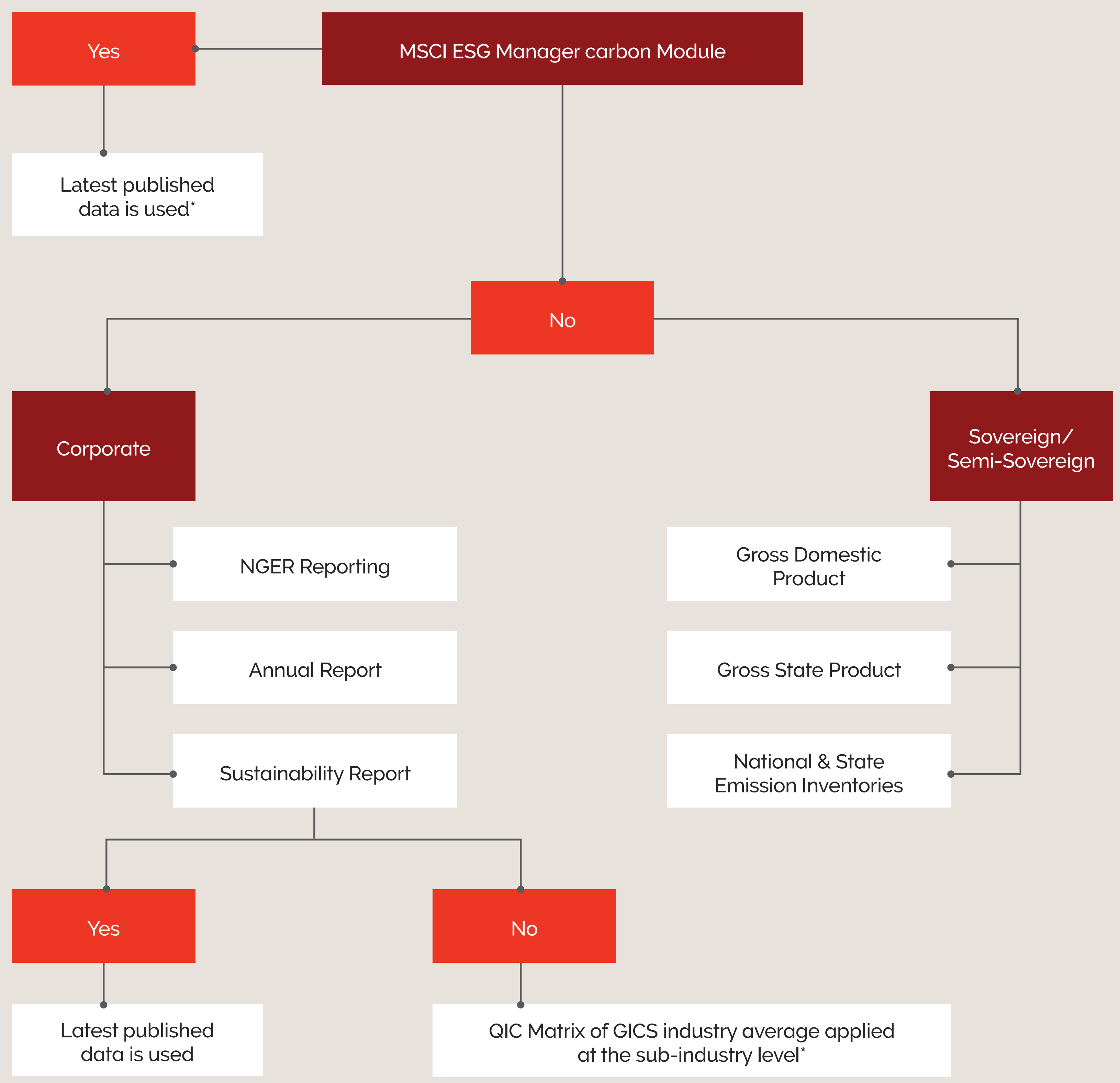
We are also seeing deeper explanation of scenarios, uptake of TCFD reporting, science-based targets and remuneration being linked to climate objectives. The improvements mean we need less reliance on our proprietary model and can spend more time stress testing climate risk for portfolio holdings.

We want to be invested in companies that are working to reduce emissions and addressing stranded asset risk so that they are well placed to repay bondholders.

We also want to identify and support the bonds of companies that are likely to have significant impact on a sustainable future.

For more on QIC's approach to mapping climate risk, see the 2020 QIC Sustainability Report.

Measuring the carbon intensity of portfolios using our proprietary methodology to capture 100% of physical holdings



* Over 6000 entries. Subject to sanity check with betas applied using GLS credit analysis NGER = National Greenhouse & Energy Reporting Scheme

The following case studies look at the sustainability goals of some larger carbon emitters at the forefront of transitioning their operations to reduce their climate impact – our bond holdings help finance these companies to increase their sustainability.

Case Study

How Bondholders can Benefit as Companies Transition to Net Zero Emissions

QIC is committed to partnering with companies that bring to life the impact that championing ESG can have on investment value creation and risk mitigations, while also having a positive influence on society. One such partnership is AGL's joint venture with QIC, the Powering Australia Renewables Fund (PARF) which saw the generation pf 348.6GWh of renewable power in 2019.

At present, AGL is one of the largest carbon emitters in Australia, with coal-fired generation its largest contributor. AGL has committed to strengthening its climate commitment and is targeting net zero by 2050, through retiring the main sources of their carbon emissions and transitioning to renewable energy.

AGL has also now tied executive remuneration to emission reduction metrics. From FY21 the Long-Term Incentive (LTI) plan for executives includes carbon transition metrics for controlled generation emissions intensity, controlled renewable and electricity storage capacity and revenue from green energy and carbon neutral products and services.

These three metrics will comprise one third of the performance rights LTI and will be tested in FY24 for the first vesting.

If AGL achieves its climate commitments the impact will be meaningful, and bondholders will have contributed to one of the largest transition stories in the country.

AGL can have huge impact achieving net zero → AGL is transparent → Investors can monitor transition → Executive remuneration is tied to climate targets

Thought Leadership Contributions

QIC is a member of various industry initiatives collaborating on ESG implementation and sustainability. These are valuable sources of knowledge in relation to market developments as well as ESG themes and trends.

They also contribute to our commitment to UN PRI Principle 2, which states "We will be active owners and incorporate ESG issues into our ownership policies and practices".

QIC reports its sustainability using the Task Force on Climate-related Finance Disclosures and the Global Report Initiative frameworks.

Throughout the past year, QIC's 'ESG Champions' have attended various events and contributed to working groups on market governance and ESG topics.

Event/Conference/Committee	Participation by LMG and RI Personnel
BBSW Advisory Committee	Laurent Danoy, Liquidity Manager and Trading, LMG, is a member of the ASX BBSW Advisory Committee, which is the industry consultative committee reforming the BBSW benchmark, comprised of the RBA, ASIC, APRA and around 10 market participants.
Australian Foreign Exchange Committee	Stuart Simmons, Head of Currency, LMG, is a member of the Australian Foreign Exchange Committee (AFXC), a representative forum of the Australian foreign exchange market operating under the sponsorship of the Reserve Bank of Australia (RBA).
Global Foreign Exchange Committee	Stuart Simmons is Australia's private sector representative to the Global Foreign Exchange Committee. Within the GFXC, Stuart also co-leads the Buyside Liaison Working Group, advocating for greater engagement with buyside institutional FX market participants and widespread adoption of the FX Global Code.
PRI Sovereign Debt Advisory Committee	Marayka Ward, Senior Credit & ESG Manager, is a member of the UNPRI's Sovereign Debt Advisory Committee. She was also a member of the UNPRI's Bondholder Engagement Working Group when it existed.
Australian Sustainable Finance Initiative	Marayka Ward is a member of Technical Working Group 2: Creating a more sustainable, resilient and stable finance system by embedding sustainability into systems, markets, products and services to better account for risk and impact. Kate Bromley, General Manager, Responsible Investment is a member of Technical Working Group 4: Meeting community and consumer expectations, and putting people at the centre of finance's purpose.
Griffith University Student Investment Club Investment Committee	Marayka Ward is a member of the Investment Committee. The SIF invests real money in ASX200 listed companies and excludes investments in companies that derive revenue from fossil fuels. The Investment Committee determines holdings based on student recommendations and provides an excellent mentoring opportunity.
UNEP FI / PRI / ASFI	Marayka Ward attended the UNEP FI / PRI / ASFI conference: Towards a resilient and sustainable economy in December 2019.
European Union Briefing	Marayka Ward attended the EU Sustainable Finance Taxonomy Briefing in September 2019.
FinGEO 7th Global Seminar	Marayka Ward and Kate Bromley attended the FinGeo seminar (25 delegates – invitation only) on harms-based regulation in May 2019.
KangaNews Sustainability Panels	Marayka Ward has joined several roundtable and conference panels on sustainability including: • ANZ / KangaNews roundtable: New Developments in Sustainable Finance Bond Markets: Sustainability Linked Bonds September 2019 • COVID-19 Diaries April 2020 • CBA / KangaNews roundtable: Green, Social, Sustainability survey June 2020
Major bank Sustainability Panels and Investor Conferences	Marayka Ward has presented to several roundtables and conference panels on sustainability from a fixed income perspective, most recently including: • ANZ Debt Investor Conference February 2019 • NAB Roundtable on ESG August 2019 • NAB Sustainability Webinar June 2020 • CBA Green, Social, Sustainability roundtable (part 2) July 2020
Bloomberg In Conversation Roundtable	Marayka Ward joined Bloomberg's In Conversation Roundtable with Wilhelm Mohn, Head of Sustainability & Corporate Governance at Norges Bank IM in June 2020.
FX Conferences	Susan Buckley, Managing Director, LMG, spoke at FX conferences (such as FX Week – Australia and Asia) promoting the Global FX Code in October and November 2020.

QIC's memberships include:

GRESB INFRASTRUCTURE

CDP DRIVING SUSTAINABLE ECONOMIES

PRI Principles for Responsible Investment

Investor Group on Climate Change

riaa Responsible Investment Association Australasia

Climate Action 100+ Global Investors Driving Business Transition

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