ESG Bulletin

Half-year ended 30 June 2024

Welcome to TelstraSuper's Environmental, Social and Governance (ESG) Bulletin, which summarises our ESG investing activities for the half-year ended 30 June 2024. These activities reflect how material ESG considerations form an important part of our investment decision-making process.

Below is an overview of TelstraSuper's approach to managing ESG risks and opportunities:

Our Objective

TelstraSuper's fundamental objective is to responsibly enhance the financial security of its members in retirement. As part of managing ESG-related risk to an acceptable level and subject to our statutory and regulatory obligations, we seek to holistically incorporate material ESG considerations alongside other investment factors as part of our investment decision-making processes.

ESG Investment Approach

- ESG Integration
- Active ownership
- Systemic ESG Factors
- Collaboration and Advocacy
- Exclusion

Enabling Policies and Key Statements

You can access our key ESG policies and statements using the following links:

- ESG Policy
- Proxy Voting Policy
- Modern Slavery Statement
- Stewardship Statement

ESG investment key activities snapshot

TelstraSuper has updated its ESG Policy to ensure it remains aligned with market developments and emerging ESG investment approaches. The ESG Policy is guided by five key principles that fundamentally shape TelstraSuper's approach to managing ESG risks in decision-making and ongoing management.

Our ESG Beliefs guide how we incorporate material ESG considerations into investment management decision-making on behalf of our members:

Material ESG factors may impact investment risk and return over the long term therefore should be managed prudently.

Integrating material ESG considerations into investment decision-making processes assists TelstraSuper in making more informed investment decisions by effectively managing risks and identifying opportunities.

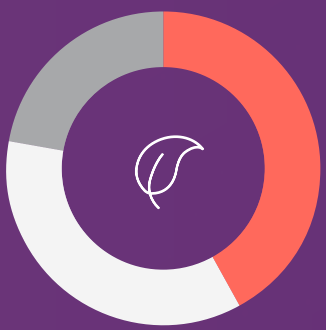
ESG investment practices form part of a comprehensive investment management framework and complement TelstraSuper's fiduciary duty to act in the best financial interests of its members.

Active ownership (voting, engagement and collaboration) plays a role in improving long-term returns.

TelstraSuper has also updated its Climate Change Action Plan (CCAP) to ensure it remains aligned with the goals of the Paris Agreement, while also reflecting our experience in implementing the CCAP and evolving industry practices.

As the ESG investment landscape evolves, regular engagement with various stakeholders, including prioritised investee companies, is important to effectively understand and integrate diverse ESG factors and themes, thereby assisting in managing ESG risks and opportunities.

Company engagement by themes: ESG and sub-categories



- Governance (42%)
- Environment (36%)
- Social (22%)

Sub-category	Proportion of total engagement
Audit and Accounting	2.8%
Board (Accountability, skills, diversity, succession)	13.9%
Business Strategy	11.1%
OH&S	5.6%
Remuneration	5.6%
Risk Management	2.8%
Biodiversity	8.3%
Circular Economy	5.6%
Climate Change	19.4%
Waste Management	2.8%
First Nations People – Cultural Heritage	5.6%
Human Rights	2.8%
Labour Practices	2.8%
Modern Slavery	5.6%
Social License to Operate	5.6%

The total is greater than 100 due to rounding

ESG integration

As a long-term investor, TelstraSuper seeks to adopt a holistic approach to integrating material ESG factors into our investment decision-making processes, guided by pragmatic and systemic considerations. This is part of TelstraSuper's effort to enhance long-term financial outcomes for our members. This approach applies to all asset classes except cash, currency and derivatives.

Integrating material ESG factors gives us an additional perspective to understand and evaluate companies and investment managers alongside other investment factors. We combine pre-investment ESG assessments with ongoing monitoring to promote and encourage sound long-term ESG management practices.

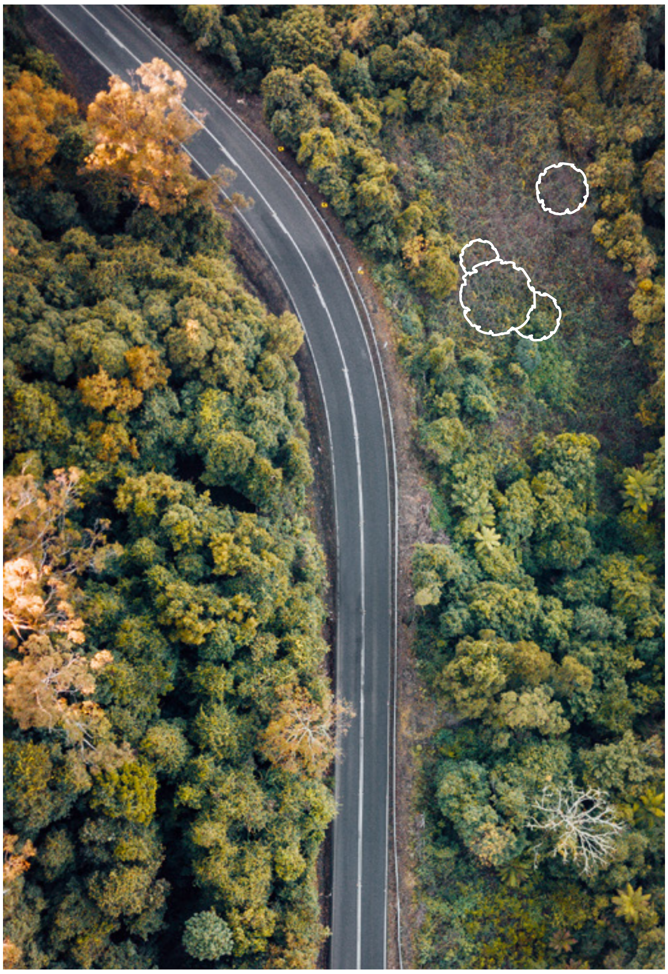
Reviewing new external investment managers

Before we appoint a new investment manager or make a new direct investment, we use our internal ESG assessment framework to assess consistency with our ESG Policy. The assessment criteria include policy, resourcing, integration, active ownership, reporting, collaboration, and systemic ESG factors like climate change and modern slavery.

During the six months to 30 June 2024, TelstraSuper conducted pre-investment due diligence for three new external investment managers. Our evaluation showed that all these investment managers appeared to have either a 'good' or 'satisfactory' approach to integrating material ESG considerations into their investment processes. We also provided feedback to these investment managers on areas we would like to see them strengthen.

Ongoing monitoring

We monitor how our prioritised investee companies and external investment managers consider and manage material ESG risks and opportunities in their investment approach across all applicable asset classes. Additionally, where practicable, we periodically engage with our external investment managers to discuss ESG-related matters. We believe ongoing engagement is important because material ESG factors are typically long-term.

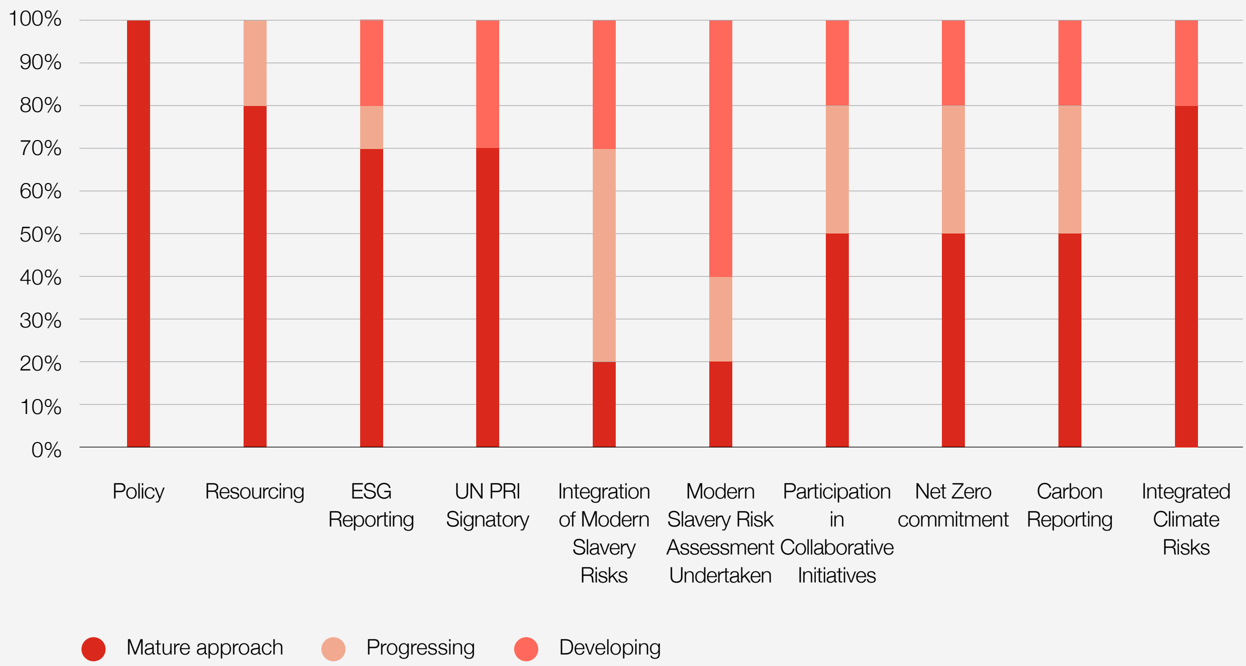


'Opportunities'[1] asset class review

During this reporting period, we collaborated with our external investment managers in the Opportunities asset class as part of our annual asset class review. Our assessment covered policy and resourcing, reporting, modern slavery, collaboration and advocacy, climate change considerations, including net zero commitments, integration of climate risks into investment management processes, and key ESG-specific initiatives implemented in the past year.

The chart below summarises the key observations from our assessment of our Opportunities for investment managers' ESG approaches. Most of our investment managers demonstrated a mature approach and were progressing as expected in governance, resourcing, external reporting, and climate risk management. However, we also identified opportunities to improve the management of modern slavery risk.

Opportunities Asset Class Annual Review – ESG Management and Performance of External Investment Managers



1. The Opportunities portfolio aims to provide TelstraSuper members with exposure to emerging investment opportunities. It is a "best and highest conviction ideas portfolio" which employs a disciplined process that seeks to identify various themes and ideas that we believe will deliver strong investment returns over a given horizon (5 years at a maximum). The portfolio also seeks to add value by exploiting opportunities when markets dislocate, either through co-investment or best ideas emanating from existing relationships within our universe or broader fund.

Investment in ‘ESG-conscious’ opportunities

As a segment of our overall investment strategy, we seek out ESG-conscious opportunities that, in our view, are likely also to achieve our investment return objectives for members. One such investment made in this reporting period is summarised below:

Renewable energy infrastructure

During the period, TelstraSuper invested in the ‘Net Zero Power Fund,’ managed by Quinbrook Infrastructure Partners. Quinbrook is a specialist value-add infrastructure manager that originates, acquires, constructs, operates, and manages direct investments in renewable energy and sustainable data centre assets and businesses.

This fund’s investment portfolio includes utility-scale solar farms, battery projects, and sustainable data centres, including the “Supernode” battery project and sustainable data centre campus just north of Brisbane. The fund also aims to invest in similar US and UK projects.

The rapid growth in cloud storage requirements and the use of artificial intelligence (AI) requires data centres to house the infrastructure needed to support these operations. This investment expects to drive attractive long-term investment outcomes for our members while supporting the energy transition towards a net zero economy by utilising renewable energy and sustainable designs.

This investment follows other climate change-related investments made by TelstraSuper in the previous six months, including an investment in Hysata, a company focused on developing resource and cost-efficient electrolysers for producing green hydrogen. (details available in the Dec 23 ESG Bulletin).

Principles for Responsible Investment (PRI) Reporting

TelstraSuper has been a signatory of the Principles for Responsible Investment (PRI) since 2007. As a signatory, TelstraSuper reports its ESG activities annually using the PRI's global reporting framework.

This framework provides a structured approach to assessing how organisations integrate ESG factors into their investment processes.

The framework includes several key areas, such as:

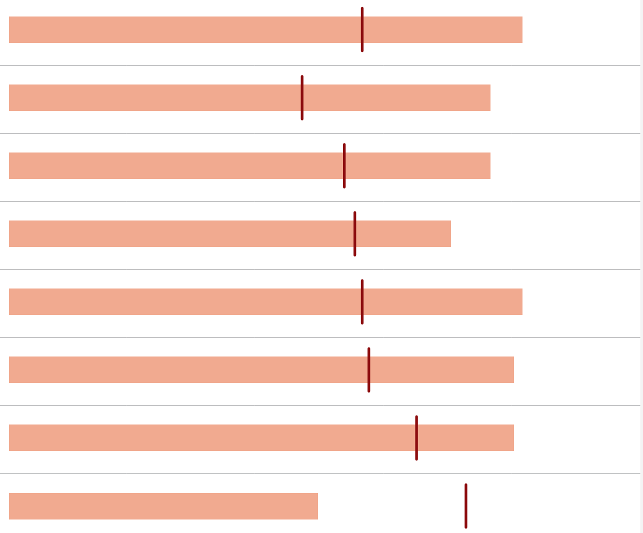
- **Governance and Strategy:** Evaluates the organisation's governance structure and overall investment strategy.
- **Investment Processes:** Assesses how ESG factors are incorporated into investment analysis, decision-making and monitoring.
- **Engagement and Stewardship:** Reports on how the fund engages with investee companies and its active ownership practices.
- **Outcomes and Impact:** Reports and discloses the activities and impact of ESG integration.

The PRI scorecard below outlines TelstraSuper's 2023 PRI assessment results. It shows that TelstraSuper's ESG integration approach surpasses the PRI median score in most modules. This scorecard also helps us understand areas for improvement in the future. A detailed summary of our PRI assessment is available on our website.

TelstraSuper has received a score that is lower than the PRI median score in the category of 'Confidence Building Measures.' This module encompasses three essential questions pertaining to the review process conducted for the PRI submission, as well as the internal review implemented prior to these submissions. Although TelstraSuper engages in periodic internal audits, it is possible that the lower score resulted from the absence of an external audit. TelstraSuper will consider initiating an external audit or assurance review in the calendar year 2025.

Summary Scorecard

Module score	Star score	AUM coverage	★ (0<=25%)	★★ (>25<=40%)	★★★ (>40<=65%)	★★★★ (>65<=90%)	★★★★★ (>90%)
Policy Governance and Strategy	★★★★★						
Indirect – Listed equity – Passive	★★★★	>=10 and <=50%					
Indirect – Listed equity – Active	★★★★	>=10 and <=50%					
Indirect – Fixed income – Active	★★★★	>=10 and <=50%					
Indirect – Private equity	★★★★★	<10%					
Indirect – Real estate	★★★★	>=10 and <=50%					
Indirect – Infrastructure	★★★★	<10%					
Confidence building measures	★★★						



Module Score PRI Median

Capacity building and internal training

We encourage our Investment Management Team to actively engage in ESG training and information sessions, both internally and externally.

In late 2023, our ESG Team initiated a program to provide informative and capacity-building sessions for the broader Investment Management Team. These sessions focus on prevalent and emerging thematic ESG topics to enhance collective understanding and knowledge. The overarching objective is to facilitate the integration of material ESG considerations into investment management processes at all levels.

Key sessions delivered during this reporting period include:

Modern Slavery

TelstraSuper is a reporting entity under the Modern Slavery Act 2018 (Cth), which covers serious exploitation practices that are offences under the Australian Criminal Code. These include slavery, servitude, forced labour, the worst forms of child labour, human trafficking, debt bondage, slavery-like practices, forced marriage, and deceptive recruiting for labour or services.

This session provided an overview of the impact of modern slavery on people and risk management practices in investment contexts, including:

- The importance and challenges of recognising and mitigating modern slavery practices.
- Potential financial, legal, and reputational risks for investors due to modern slavery-like practices in the investment supply chain.
- Real-life case studies illustrating how neglecting modern slavery risks can affect people, investment outcomes, and reputation.
- Australian and emerging global legal and compliance aspects of modern slavery risk management.
- Practical guidance for TelstraSuper's Investment Team to understand and incorporate modern slavery risks into investment decision-making processes.

Sessions for the wider TelstraSuper teams

Several sessions were conducted for the wider TelstraSuper team, including information sessions on climate risks and upcoming aspects of Australian compliance. These include:

- A session for our Financial Planning Team on climate change risks, including TelstraSuper's climate-related risk management approach and net zero goals, to ensure that our team members are well-informed and equipped to address member queries as the first point of contact.
- A session for our Investment Management Team to discuss the upcoming mandatory climate disclosure legislation. This session outlined each team's reporting obligations in four key areas: governance, strategy, risk management, and metrics and targets.
- A session was convened for the TelstraSuper Executive Risk and Compliance Committee (ERCC), outlining TelstraSuper's key ESG risks and opportunities and the risk management and mitigation measures in place. The session featured an in-depth presentation on TelstraSuper's strategy concerning each of its five key ESG pillars and its responsibilities in light of imminent legislative changes.

Case Study

ESG integration: partnering with tenant customers for a renewable energy and battery storage solution

Leveraging solar energy and advanced battery storage is essential for enhancing energy resilience, reducing carbon footprints, and managing energy costs. Charter Hall, one of our Property asset class investment managers, seeks to implement this renewable energy solution across our Industrial and Logistics Property portfolio.

For example, at Compass Logistics Estate in Western Sydney, Charter Hall has installed battery storage units in collaboration with tenant HCL, at a site in which TelstraSuper has an underlying interest. By actively working with tenant customers like HCL, battery storage technology helps mitigate the environmental impact of the buildings, lowers energy costs for tenants and achieves greater energy efficiency. The energy generated from solar panels and stored in batteries supports this collective journey towards net zero.

Battery storage technology allows tenants to utilise renewable energy throughout the day and store excess solar energy for use after sunset. The battery storage system optimises energy management by storing power during periods of low demand and releasing it during peak demand times.

This case study highlights the possible positive outcomes of partnering with tenants to achieve environmental and financial goals, setting a benchmark for future projects in the property sector.

Active ownership

As responsible stewards of capital, we recognise the importance of advocating for and advancing ESG risk management practices within our investments.

This involves:

1. Engaging directly or collaboratively with prioritised investee companies on various ESG matters and advocating for enhanced ESG risk management and approaches over the long term.
2. Utilising proxy voting as an effective tool for holding a listed investee company's board to account and encouraging ongoing improvement in corporate governance.

When TelstraSuper engages with Australian listed companies, we do this directly, through our external investment managers, or indirectly through our partnership with the Australian Council of Superannuation Investors (ACSI) and other industry collaborative initiatives (e.g. Climate Action 100+). Engagement with international listed companies is generally facilitated through our external investment managers.

Active ownership measurement

The table below summarises our proxy voting activity for listed equities during the reporting period:

Proxy voting results[2]

	Australian Equities	International Equities
Number of meetings	35	1308
Total number of resolutions voted	68	2,774
Voted 'For'	91.5%	89.3%
Voted 'Against'	8.5%	10.6%
Voted 'Abstain'	0%	0.1%

We voted against the management recommendation[3] of approximately 6.4% for domestic holdings and 9.27% for international holdings. A comprehensive summary of our proxy voting record is available on our website.

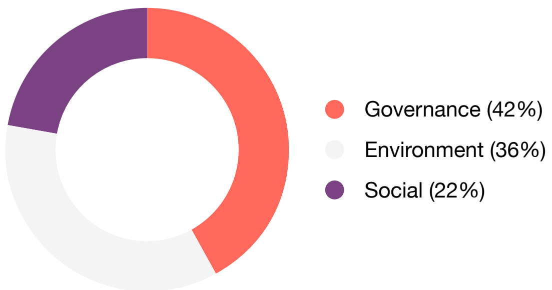
Direct and collaborative engagement

Over the six months to June 30, 2024, we engaged with 13 listed Australian investee companies to address various ESG matters. This was undertaken directly by TelstraSuper or through collaborative initiatives in partnership with our engagement service providers, ACSI and Investment Group on Climate Change (IGCC). Our engagement approach seeks to improve investee company practices over time through constructive discussions that enhance our understanding of their business objectives, challenges and priorities.

Key ESG issues and objectives discussed or raised with the relevant investee companies during the reporting period included governance, remuneration, culture and accountability, cultural heritage, climate change, modern slavery, labour rights, diversity and occupational health and safety.

The graph below highlights the weighting of ESG themes discussed:

Company engagement by ESG theme



2. Data provided by TelstraSuper's proxy service advisers as at 30 June 2024.
3. Includes cases where management has advised voting for or against a resolution.

Case Study

Active ownership via engagement and voting: Woodside 'Say on Climate' vote

One of our key focus areas is being comfortable that our investee companies' strategies align with the Paris Agreement. This often involves engagement spanning multiple yeas to encourage commitments to net zero emissions, with clear and ongoing disclosure of progress.

A growing number of Australian companies are now providing advisory votes on climate through a process known as 'Say on Climate'. This trend is a positive development as the implementation of a 'Say on Climate' vote is often accompanied by increased transparency and stronger commitments related to climate risk.

TelstraSuper, as part of its collaboration with ACSI and the Climate Action 100+ initiative, undertook multiple engagements with Woodside in the lead-up to its April 2024 AGM , where the company offered shareholders a 'Say on Climate' advisory vote.

Through our multi-years engagement with the company, we observed that Woodside's Board acknowledges the following:

- The need to assist investors in assessing the risks associated with Woodside's products in a decarbonising world.
- The importance of providing investors with information on how Woodside plans to diversify its business operations into new energy and lower-carbon services projects, moving away from a singular reliance on fossil fuels.
- The need to address investor concerns about the company's heavy reliance on offsets to achieve its carbon emissions-reduction targets, and the lack of clarity on the cost of its offsets programme. For example, investors need transparency on whether the cash allocated to offsets is economical or credible, including the quality of offsets, which may have potential reputational and regulatory implications.

Concerns

While we recognise that Woodside has improved its disclosures compared to previous years, it remains unclear whether the company has a credible plan for allocating capital to address climate-related impacts. Improved disclosures are necessary to give investors greater confidence. We have observed little progress in Woodside's efforts to meet its goal of investing $5 billion in new energy projects, making it challenging to see how the company intends to meet its emissions targets beyond 2030.

TelstraSuper voted 'against' the 'Say on Climate' advisory resolution due to concerns regarding the lack of clarity on the future resilience of the company. We will continue to engage with Woodside through our collaborative initiatives and, where practicable, directly, to advocate for a clear and resilient decarbonisation strategy.

Systemic ESG factors

We acknowledge the financial risks and opportunities associated with the underlying assets and companies we invest in due to material ESG issues that are systemic, such as climate change and modern slavery, both of which could impact long-term investment returns. Hence, it is important to understand better and manage the investment risks associated with these systemic ESG issues.

Climate Change

During this period, we undertook a range of activities in collaboration with our Investment Management Team, our external investment managers and our service providers to advance our Climate Change Action Plan (CCAP) objectives. These activities included undertaking quantitative and qualitative assessments of carbon emissions within our portfolio, understanding regulatory framework changes and managing climate transition risks.

Our key activities included:

- Participating in working groups within the IGCC, engaging with companies as part of the Climate Action 100+, and participating in ACSI's engagement and advocacy efforts on climate risks.
- Engaging with seven Australian listed investee companies on climate-related matters directly or in collaboration with service providers.
- Assessing climate risks as part of all pre-investment due diligence.
- Updating our CCAP to ensure alignment with the Paris Agreement goals, while reflecting our experience in implementation and evolving industry practices.

We are preparing the next edition of our Climate Change Report for FY 2023-24, which we aim to publish after October 2024.

Modern Slavery

TelstraSuper is a reporting entity under the Commonwealth Modern Slavery Act 2018, which came into effect on 1 January 2019. Our Modern Slavery Statement is publicly available on our website and through the Australian Government's online central register.

Our key activities for this reporting period included:

- Inclusion of modern slavery risk assessment as part of all pre-investment due diligence.
- Ongoing engagement with prioritised investee companies and external investment managers to better understand their approach to managing modern slavery risks.
- Joining the investor-led collaborative initiative, Investors Against Slavery and Trafficking Asia Pacific (IAST) (see the 'Collaborative and Advocacy' section for more information).

Case Study

Advocacy for enhanced modern slavery risk management

Earlier this year, we collaborated with our external investment managers in the Opportunities asset class as part of our annual asset class review. During our assessment, we identified opportunities for some of our investment managers to improve their modern slavery risk management.

For example, we communicated our concerns and identified an opportunity for one of our investment managers to enhance their approach, aligning with TelstraSuper's obligations under the Australian Modern Slavery Act 2018 (Cth).

Following this contact, the investment manager provided a detailed overview of their management and oversight of modern slavery risks within their operational and investment supply chains. The TelstraSuper Investment Management Team engaged in several activities to understand the investment manager's approach and consulted various stakeholders.

While the investment manager demonstrated reasonable oversight, we emphasised that their approach could be strengthened by implementing a comprehensive Modern Slavery Policy and reporting measures.

As a result, the investment manager committed to continuously improving their modern slavery risk management approach and subsequently implemented a Modern Slavery Policy.

This case study highlights the value of long-term ongoing engagement concerning systemic ESG issues like modern slavery risk.

Collaboration and Advocacy

Collaboration and advocacy are important tenets of our ESG investment strategy. We participate in various collaborative initiatives and often work in partnership with our peers and other stakeholders across the investment industry. Our goal is to participate in creating positive change, exchange knowledge, and remain up to date on important ESG topics and emerging trends.

Reporting and disclosures

In addition to this Bulletin, TelstraSuper members can read about our ESG activities on our dedicated ESG page on the TelstraSuper website.

We also periodically produce videos and news articles on our activities for members and share information through our quarterly member newsletter.

Our member contact centre regularly responds to member queries about climate change and related matters.

TelstraSuper is a member of and participates in several collaborative initiatives, including:

Investors Against Slavery and Trafficking Asia Pacific (IAST)

In February 2024, TelstraSuper became a member of Investors Against Slavery and Trafficking Asia Pacific (IAST), an investor-led collaborative initiative.

IAST was established in 2020 with the aim of engaging with companies in the Asia-Pacific region to promote effective action in understanding, addressing and mitigating modern slavery in operations and supply chains through collective company engagement efforts.

The IAST APAC entity comprises 49 investors with a collective AU$12 trillion in Assets Under Management (AUM), in collaboration with the Australian Council of Superannuation Investors (ACSI), Walk Free, and the Finance Against Slavery and Trafficking (FAST) initiative.

As part of this initiative, TelstraSuper has participated in investor-led collective engagement for an Australian and an international listed company.

Industry recognition

In September 2023, TelstraSuper was named a 2023 ESG Leader Super fund by Rainmaker for the second consecutive year, following the recognition in 2022. The ESG Leader Rating acknowledges Australia's super funds, which Rainmaker considers to implement environmental, social, and governance (ESG) principles to a high standard while maintaining a track record of strong investment performance.

TelstraSuper was recognised as the Responsible Super Fund Leader of 2023 by the Responsible Investment Association Australasia (RIAA). This recognition acknowledges our commitment to governance and accountability, ESG approach implementation, appropriate outcomes measurement, and enhanced transparency.

Exclusion

To enhance the long-term investment value for our members, we generally employ systemic and pragmatic ESG integration into investment decision-making processes instead of excluding specific companies or sectors solely based on ESG values.

However, in certain situations, excluding a sector or specific stock may be deemed appropriate if it aligns with TelstraSuper's investment mission, is executed clearly, and is not expected to impair the achievement of risk-adjusted long-term investment objectives significantly.

Our current exclusions are as follows:

1. **Tobacco:** Any listed company that produces or manufactures tobacco and tobacco-related products or devices that facilitate smoking and vaping where such manufacturing or production represents 5% or more of the company's net revenue.[4]
2. **Controversial weapons:** Any listed company involved in manufacturing whole weapons systems or components of cluster munition, anti-personnel mines, biological and chemical weapons where such activities represent 5% or more of the company's net revenue.[5]
3. **Thermal coal:** Listed primary-focus thermal coal producers, where 25% or more of the company's net revenue is derived from thermal coal production.[6]
4. **Russian-domiciled securities:** Russian-domiciled securities (including corporate debt issued in hard currency) and Russian sovereign debt instruments.

TelstraSuper employs various third-party appropriate screening processes and exception reporting to identify and prevent non-compliance within its listed securities portfolios. However, where non-compliance is identified, TelstraSuper will seek to divest non-complying investments in an orderly fashion as soon as practicable, in a manner that, as far as possible, preserves value for members.

It is important to note that employing such screening processes, exception reporting and monitoring by management is not infallible. Non-compliance may occur inadvertently (including through errors or delays, including in obtaining corporate information beyond TelstraSuper's control), resulting in excluded investments residing in the investment portfolio until identified and subsequently divested in the manner referred to above.

In response to Russia's invasion of Ukraine, in March 2022, our external investment managers were instructed to divest from Russian-domiciled securities and sovereign debt instruments in an orderly manner when markets allow and exclude additional investments until further notice. This instruction remains in place. However, it should be noted that the Fund may have legacy exposure to / own Russian securities or debt instruments where the external investment manager has been unable to divest the assets given there is no functioning market in which to transact, there are no buyers for the asset, or Russia has banned foreign investors from transacting in the securities.

Thermal coal exclusion

During this reporting period, the TelstraSuper Board revised the threshold for excluding primary-focused thermal coal producers. The threshold was lowered from above 50% to 25% of the net revenue.

This revision reflects the transition to a net-zero economy and represents a step in that direction. Importantly, the revised threshold affords relevant investee companies the necessary time to adapt their business models with a view to transitioning towards lower carbon energy sources. The revision also takes into considerations of a 'just transition'[7], seeking to ensure that society as a whole progresses along this trajectory.

4. For tobacco exclusion: the 5% or more net revenue threshold is assessed (estimated or reported) against the most recent financial reporting available.
5. For controversial weapons exclusion: the exclusion is limited to whole weapons systems or components developed for exclusive use in controversial weapons. The 5% or more net revenue threshold is assessed (estimated or reported) against the most recent financial reporting available.
6. For thermal coal exclusion: the 25% or more net revenue threshold is assessed (estimated or reported) against the most recent financial reporting available.
7. A 'just transition' refers to the process of transitioning from a high-carbon economy to a low-carbon economy in a manner that is fair and equitable. It seeks to ensure that workers and communities reliant on fossil fuels or high-emission industries are supported during this transition, reducing negative impacts and generating new opportunities for sustainable livelihoods.

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