Sustainable Investing Bulletin

Half-year ended 31 December 2023

Welcome to TelstraSuper's Sustainable Investing Bulletin, which provides a summary of our sustainable investing activities for the half-year ended 31 December 2023. This bulletin provides an overview of our approach and management of material environmental, social and governance (ESG) considerations as an important part of our investment decision-making process.

An overview of TelstraSuper's approach to sustainable investment is outlined below.

Our Mission

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 its investment decision-making processes.

Sustainable Investment Approach

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

Enabling Policies and Key Statements

- Sustainable Investment Policy
- Proxy Voting Policy
- Modern Slavery Statement
- Stewardship Statement

TelstraSuper

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 across all our asset classes, except for cash, currency and derivatives.

The integration of material ESG factors provides us with an additional perspective through which to understand and evaluate companies and investment managers alongside other investment factors. In doing so, we combine pre-investment ESG assessments with ongoing monitoring, which helps us identify areas where improvement is needed to promote and encourage sound long-term ESG management practices.

Reviewing new external investment managers

We utilise our internal ESG assessment framework and rating as part of all pre-investment due diligence processes. The criteria employed in our ESG assessment framework include policy, resourcing, integration, active ownership, reporting, collaboration, and systemic ESG factors like climate change and modern slavery.

During the six months to 31 December 2023, TelstraSuper conducted pre-investment due diligence on the ESG integration approaches of 3 new external investment managers. Our evaluation revealed that all 3 managers effectively integrated material ESG considerations into their investment processes.

Ongoing monitoring

We monitor how our investee companies and external 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 that ongoing engagement is important, given that material ESG factors are typically long-term in nature.

Investment in 'ESG-conscious' opportunities

As a segment of our overall investment strategy, applicable asset-class investment teams seek out ESG-conscious opportunities that, in our view, are most likely to also achieve our expected investment return objectives for members. Two such investments made in this reporting period are summarised below:

Data centre with innovative sustainable design

During the period, TelstraSuper invested USD 10.5 million in a US-based data centre strategy within the 'Opportunities' asset class.

Generative AI has compelled companies to consider the impact of AI on their business and industry. Data centres play a crucial role in meeting the growing demands of businesses transitioning to cloud computing, content creation, and the development of AI capabilities. High-end semiconductors, primarily GPUs (graphics processing units), are essential for training and running AI models supported by data centres.

The data centre company in which TelstraSuper invested distinguishes itself with modern, innovative, and sustainable design, leading to lower energy costs, as well as exhibiting other positive return characteristics. Some of the key sustainable design features include:

- Implementation of advanced technologies to decrease water consumption, thereby enhancing water efficiency.
- Utilisation of desert night air for cooling tower technologies, thereby reducing the demand for energy consumption.

Green hydrogen production technology

Within our private markets investments, we invested in a company that intends to produce technology aimed at developing the world's most efficient electrolysers that could, over time, significantly contribute to the energy transition by optimising the production of green hydrogen.

This investment was considered as part of our 'CleanTech' segment within the 'Opportunities' asset class.

Some of the key sustainable considerations include:

- Existing commercial electrolysis technology relies on either an Alkaline system or a Polymer Electrolyte Membrane (PEM) System. Both involve electrodes surrounded by electrolytes and are susceptible to efficiency loss due to the formation of bubbles around the electrode during operation. As a result, existing electrolysers operate at around 70-75% efficiency.
- The proposed technology is a capillary-fed process that eliminates bubbles and promises 95% efficiency. At this level of efficiency, the cost of green hydrogen production falls below USD 2/kg, making it economically viable.
- This consideration aligns with our support of the goals of the Paris Agreement on climate change, given the crucial role that green hydrogen technology may play in the transition to a low-carbon economy, especially for hard-to-abate sectors.

Sustainable buildings

TelstraSuper has an investment in Quay Quarter Tower in Sydney through our external investment manager, Mirvac. The tower received 15 awards, notably being named the 'Best Tall Building Worldwide in 2023' by the Council on Tall Buildings and Urban Habitats (CTBUH). The tower was acknowledged for its forward-looking strategies and solutions addressing urban density challenges.

In November 2023, the Australian Circular Economy Hub (ACE Hub) awarded Mirvac and Circonomy the 'Full Circle Award' for demonstrating and considering all key principles of the circular economy at Collins Place in Melbourne, one of the buildings we are invested in.

Capacity building and internal training

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

During the second half of the year, our Sustainable Investment Team initiated a program aimed at delivering information and capacity-building sessions for the wider Investment Team. These sessions will focus on prevalent and emerging thematic ESG topics.

Key information sessions delivered for this reporting period are:

PRI Conference

TelstraSuper has been a signatory to the Principles for Responsible Investment supported by the United Nations (PRI) since 2007. TelstraSuper participated in the PRI conference, which was held over three days with 1,300 attendees. The insights gained were subsequently shared with the broader Investment Team.

Throughout the conference, a prominent theme underscored the criticality of engagement with both companies and policymakers. The conference highlighted that the international community is focused on three key areas related to sustainability and climate change:

1. Enhancing transition financing to achieve the goals of the Paris Agreement and ensure a just transition.
2. Deforestation, with the steady growth of global regulatory measures.
3. Supply chain awareness and the rise of regulations and legal actions globally, particularly concerning allegations of forced labour against companies.

First Nations People and Cultural Heritage

This session provided an overview of the significance of First Nations People and their cultural heritage in investment contexts, which included:

- The importance and challenges in recognising and preserving this heritage within commercial frameworks.
- Potential financial, legal, and reputational risks for investors due to insufficient consideration of cultural heritage.
- Real-life case studies illustrating how neglecting cultural heritage impacted investments. Australian legal and compliance aspects related to First Nations People's cultural heritage.
- Practical guidance for TelstraSuper's Investment Team to understand and navigate these considerations into investment strategies and decision-making processes, where applicable.

Case Study

ESG integration – Port of Melbourne

Several years ago, we participated in the privatisation of the Port of Melbourne within our infrastructure asset class in partnership with our external investment managers. Our external investment managers have implemented several leading sustainability initiatives for this asset, aligning with our sustainable investment strategy.

These initiatives include:

- Committing to a net-zero target by 2030 (scope 1 & 2), including sourcing 100% renewable electricity and transitioning the corporate vehicle and marine survey vessel fleets to zero-emission technologies.
- Securing an AUD475million sustainability-linked loan in July 2023 that includes three targets: achieving net-zero emissions (scope 1 & 2) by 2030, obtaining external certification for workplace mental health policies, and engaging with material Scope 3 stakeholders on climate and emissions.
- Entering a memorandum of understanding with several stakeholders, including Maersk and green methanol providers, to explore potential green methanol bunkering at the Port.
- Established the first “Reflect” Reconciliation Action Plan in partnership with local Aboriginal and Torres Strait Islander communities and businesses, aiming to identify partnership opportunities and practical actions.

In this reporting period, the Port of Melbourne scored 99 out of 100 in the 2023 Global Real Estate Sustainability Benchmark (GRESB) assessment, ranking 1st among 7 Australian Port Companies and 1st among 25 Port Companies globally. The achievement includes perfect scores in ESG leadership, policies, reporting, and stakeholder engagement.

Active ownership

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

This approach involves:

1. Engaging directly or collaboratively with prioritised investee companies on a range of 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 good corporate governance.

When TelstraSuper engages with Australian listed companies, we do this either directly, through our external investment managers or by receiving the benefit of partnering with the Australian Council of Superannuation Investors (ACSI) and other industry collaborative initiatives (e.g. Climate Action 100+). Our 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 the reporting period:

Proxy voting results[1]

	Australian Equities	International Equities
Number of meetings	173	183
Total number of resolutions voted	942	2,180
Voted 'For'	88%	89%
Voted 'Against'	11%	10%
Voted 'Abstain'	1%	1%

We voted against the management recommendation[2] of approximately 10.6% for domestic holdings and approximately 9.4% for international holdings.

Case Study

Active ownership via external manager engagement

TelstraSuper invests in Cooper Energy, an explorer and producer of natural gas and low-cost oil, through an external investment manager. This manager provided feedback to Cooper Energy on investor concerns that the company was too heavily focused on long-dated growth opportunities in its portfolio. The company was encouraged to re-focus to improve the performance of its key asset (the Orbost gas plant), which had failed to achieve sustainable operating performance.

In our view and in our investment manager's view, this changed focus would also help deliver more natural gas to help with the energy transition in the near-term whilst reducing focus on longer-term gas production, which faces a more uncertain investment future under global climate change targets. In addition, our investment manager encouraged Cooper Energy to reduce excess costs within the business.

In December and with the company under new leadership, we started to see the benefit of this renewed focus with the Orbost plant sustainably delivering higher production rates than since start-up in 2021. Costs are also being better controlled. Our investment manager expects these two factors will lead to better free cash flow generation in 2024, which should translate into enhanced shareholder value.

This case study highlights the importance of proactive engagement to drive shareholder returns.

1. Data provided by TelstraSuper's proxy service advisers as at 31 December 2023.
2. Includes cases where management has advised voting for or against a resolution.

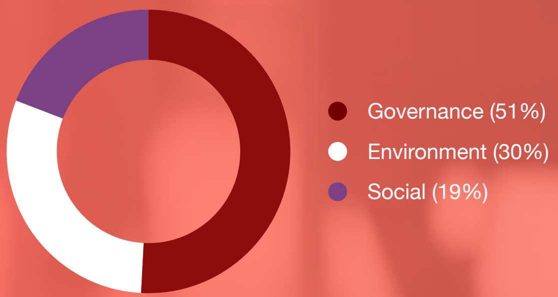
Direct and collaborative engagement

Over the last six months, we engaged with 57 listed Australian investee companies to address various ESG matters. This was undertaken directly by TelstraSuper or through collaborative initiatives and in partnership with our engagement service providers, ACSI and IGCC. Our approach to engagement involves having or receiving the benefit of constructive discussions with prioritised investee companies to better understand their business objectives and priorities, as well as trying to influence their ESG practices over time.

The 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 table below highlights the weighting of ESG themes discussed:

Company engagement by ESG theme



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 better understand and manage the investment risks associated with these systemic ESG issues.

Climate Change

During the period, we undertook a range of activities in collaboration with the Investment Team, external investment managers and service providers to advance our Climate Change Action Plan 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:

- Engaged with 23 Australian listed investee companies (directly or in partnership with service providers) and 12 of our external investment managers concerning climate risk management and net-zero goals to encourage the transition to a low-carbon economy and responsible capital allocation.
- Conducted thorough assessments of climate risks as part of all pre-investment due diligence.
- Continued to monitor and map carbon emissions in our listed equities portfolio, tracking progress towards our net-zero goals as set out in our Climate Change Action Plan.
- Collaborated with our external data service providers to enhance data collection for our unlisted and fixed-income portfolios.
- Participated in working groups within the Investment Group on Climate Change (IGCC); engaged with companies as part of the Climate Action 100+; and took part in ACSI's engagement and advocacy efforts on climate risks.
- Collaborated and engaged with peer investors; participated in various climate-specific conferences and discussions; and joined roundtable discussions to exchange knowledge and understand emerging trends for effectively managing climate risk across the portfolio.

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.
- Participation in the RIAA's Human Rights Working Group, which is dedicated to helping members achieve their responsible investment objectives. This involves understanding and managing human rights effectively within the supply chains of both business operations and investment portfolios.

Case Study

Advocacy for enhanced climate risk management

In late 2019, as part of our engagement with one of our private equity managers invested in the European market, we identified and communicated the need to enhance their existing approach, specifically regarding their net-zero journey.

In September 2023, we observed the following:

1. The manager's ambitious Science-Based Target ('SBT') was formally approved by the Science-Based Targets Initiative (SBTi).
2. The manager enhanced their communication and reporting for ESG risk management and performance.
3. The Manager made a commitment to work towards continuously improving their ESG performance year-on-year.

This case study emphasises the value of long-term ongoing engagement, particularly for systemic ESG issues such as climate risks.

Collaboration and Advocacy

Collaboration and advocacy are important tenants of our sustainable investment strategy. We participate in a variety of 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 across the market, exchange knowledge, and remain up to date on important ESG topics and emerging trends.

Case Study

Treasury Consultation: Australia's Sustainable Finance Strategy

TelstraSuper participated in collaborative discussions regarding Australia's Sustainable Finance Strategy, led and conducted by the Investor Group on Climate Change (IGCC) and Responsible Investment Association Australasia (RIAA). The submission by IGCC and RIAA:

- Supported the ambition and principles of the Paper, emphasising the need for ongoing dialogue with the industry for a comprehensive analysis and consideration of various aspects.
- Advocated for the expansion of initiatives such as disclosures and the sustainable finance economy to encompass broader ESG objectives beyond climate.
- Called for incorporating existing industry efforts into the proposed product labelling regime and removing barriers to responsible investment.

TelstraSuper, along with its peer investors and membership organisations, supports efforts towards improving ESG risk management practices, including reporting and disclosure outcomes. We extend our gratitude to the IGCC and RIAA for participating in this consultation on behalf of their members.

TelstraSuper's Investment Team participated in approximately 100 ESG-specific collaborative and briefing sessions from July to December 2023.

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

Reporting and disclosures

In addition to this Bulletin, TelstraSuper members can read about our sustainable investment activities on our dedicated Sustainable Investment page on the TelstraSuper website.

We also produce videos and news articles for members on our activities and share information through our quarterly member newsletter. Our member contact centre regularly responds to member queries relating to climate change and other related matters.

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 that Rainmaker considers implement environmental, social, and governance (ESG) principles to a high standard, while also maintaining a track record of strong investment performance.

Leading Responsible Investment Super Fund Recognition

We are delighted to report that TelstraSuper was recognised as one of the 10 leading responsible investment super funds in the RIAA' (Responsible Investment Association Australasia) 2023 Responsible Investment Super Study.

The RIAA has introduced a new recognition called "Responsible Super Fund Leader". This recognition is awarded to organisations that score 75% or more on the RIAA's Framework of Good Responsible Investment Governance.

The framework evaluates the quality and scope of responsible investment disclosures and performance in five categories: Governance and Accountability; RI Commitment; RI Implementation; Measurement and Outcomes; and Transparency and Responsiveness.

We thank RIAA for this recognition and for acknowledging our efforts as an active steward of our members' retirement savings, managing material ESG factors alongside other investment objectives. We are committed to continuously enhancing our approach to sustainable investing.

riaa Responsible Investment Association Australasia

Responsible Super Fund Leader **2023**

Exclusion

To enhance the long-term investment value for our members, we 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 with undesirable ESG credentials may be deemed appropriate if it aligns with TelstraSuper's investment mission; is executed clearly, and is not expected to significantly impair risk-adjusted long-term investment objectives.

Our current exclusions are as follows:

1. **Tobacco:** manufacturers of tobacco and like products or devices that facilitate smoking and vaping where such manufacturing is deemed a material activity of the entity.
2. **Controversial weapons[3]:** manufacturers of controversial weapons where such manufacturing is deemed a material activity of the entity.
3. **Thermal coal:** primary-focus thermal coal producers, where the majority[4] of company revenue or group earnings are derived from thermal coal production.
4. **Russian-domiciled securities:** Russian-domiciled securities (including corporate debt issued in hard currency) and Russian sovereign debt instruments.

Although TelstraSuper employs various appropriate screening processes and exception reporting to identify and prevent non-compliance within its listed securities portfolios. 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.

Notwithstanding the forgoing, the employment of such screening processes, exception reporting and monitoring by management is not infallible, and non-compliance may occur inadvertently (including through errors or delays including in obtaining corporate information beyond TelstraSuper's control) which may result 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.

3. Controversial weapons manufacture means involvement in the production of anti-personnel mines, biological and chemical weapons and cluster weapons. The exclusion is limited to whole weapons systems or components developed for exclusive use in controversial weapons.

4. Defined as above 50% of earning linked to thermal coal production anywhere in the value chain.

Call us
1300 033 166

Email the TelstraSuper Sustainable Investing Team
susinv@telstrasuper.com.au

Visit the website
telstrasuper.com.au

TelstraSuper
PO Box 14309
Melbourne VIC 8001

This Sustainable Investment Bulletin is provided by TelstraSuper Pty Ltd (ABN 86 007 422 522, AFSL 236709), the trustee of the Telstra Superannuation Scheme (ABN 85 502 108 833).