



QIC

Natural Capital

SUSTAINABILITY REPORT • 2023



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About this report

The QIC Natural Capital Report is for the financial year ended 30 June 2023.

The inaugural report has been prepared by the QIC Natural Capital team and focuses on our ESG approach and activities over the financial year 2022-23.

This report should be read in conjunction with the QIC Sustainability Report and our Modern Slavery Statement which can be found at www.qic.com.

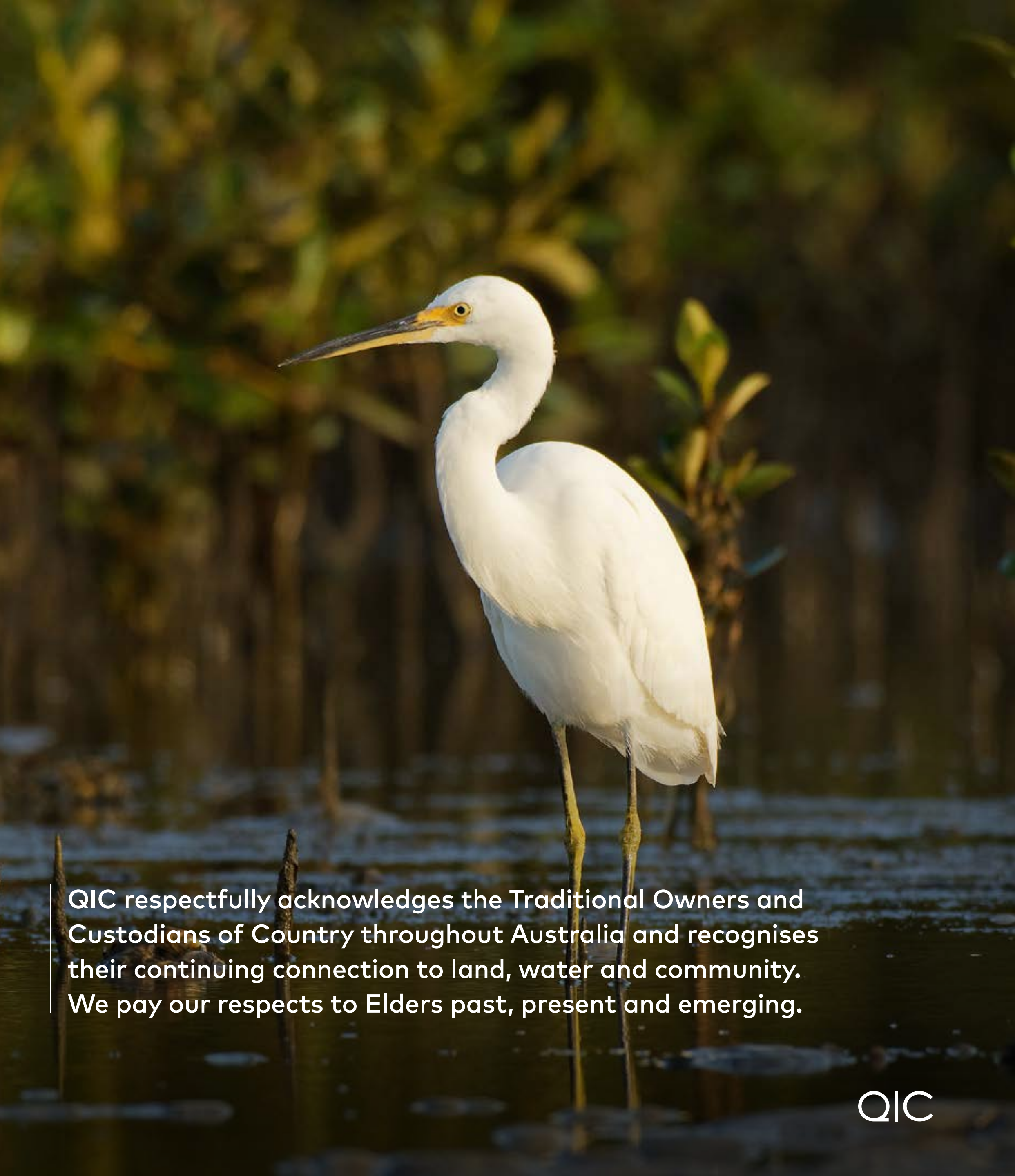
For any enquiries about information contained in this report, email sustainabilityreport@qic.com.



ACCESS
QIC 2023 Sustainability Report

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QIC respectfully acknowledges the Traditional Owners and Custodians of Country throughout Australia and recognises their continuing connection to land, water and community. We pay our respects to Elders past, present and emerging.

1. Message from our Head of Natural Capital

At the United Nations Biodiversity Conference (COP 15) in late 2022, a landmark agreement was reached which sent a signal to policymakers, investors and corporates alike — global action on nature is an imperative.

This Sustainability Report, our first for QIC's Natural Capital platform, describes how we aim to deliver large-scale natural capital outcomes alongside sustainable agriculture operations.

In recent years, there has been a growing understanding of the need for investment into natural capital, as people increasingly recognise its contribution to human wellbeing and economic prosperity. The World Economic Forum estimates \$44 trillion of economic value generation — over half the world's total GDP — is moderately or highly dependent on nature and its services, and as a result is exposed to risks from nature loss.¹

As evidenced at COP 15, action to reverse nature loss is now underway. Domestically, there is also momentum, with the Australian Government having committed to establishing a Nature Repair Market and developed a Threatened Species Action Plan.

These commitments are an important step; however, they are not enough on their own. To successfully address the economic risks posed by nature loss, private capital will need to be mobilised at scale. Analysis suggests that to reverse the decline in biodiversity by 2030, between US\$598-824 billion will be required globally each year.² This represents a significant challenge, and one we believe must be met through the development of environmental markets and investment vehicles that will attract institutional investment.

We believe these environmental markets — carbon, biodiversity and water quality — will continue to develop and scale rapidly out to 2030.

While we acknowledge the impact that farming has had historically on many Natural Capital assets, changes to farming practices and land stewardship on agricultural land can have one of the largest impacts on its restoration. We believe this provides the ideal platform to engage in these environmental markets as they grow over time.

This inaugural report provides a snapshot of our portfolio, our approach to managing our assets and an insight into our future plans. We will build on our disclosures over time and report under relevant frameworks, such as the Taskforce on Nature-related Financial Disclosures (TNFD).

I look forward to sharing further details on our progress and impact in future reports.



Tom Murphy
Head of Natural Capital

¹ The New Nature Economy Report, World Economic Forum, January 2020.

² Financing Nature: Closing the Global Biodiversity Financing Gap, Paulson Institute, <https://www.paulsoninstitute.org/conservation/financing-nature-report/>

2. About us

QIC's Natural Capital platform is built on the principle that sustainable land stewardship plays a critical role in addressing the twin crises of climate change and biodiversity loss, while also contributing to much-needed food security for a growing global population.

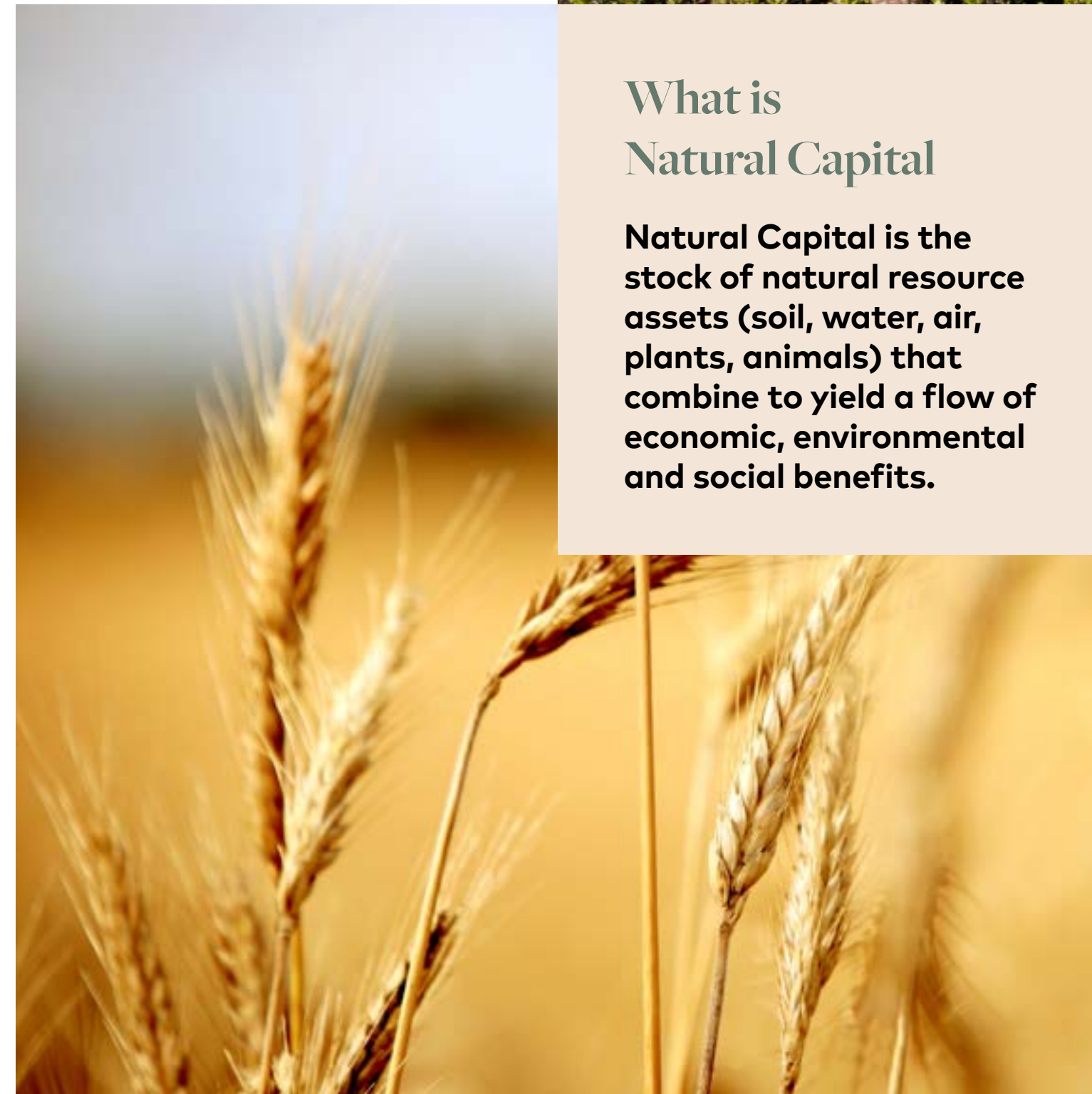
QIC, as the investment manager of one of Australia's largest agricultural operations, recognised the opportunity to implement environmental market projects alongside sustainable agriculture. This led to the creation of our Natural Capital platform in partnership with Queensland's Department of Environment and Science. We believe this platform has the potential to deliver large-scale environmental outcomes alongside attractive commercial returns for investors.

Currently, ecosystem services are not valued in a way that truly reflects their contribution to global economic and human wellbeing. This is changing, however, with global markets increasingly placing value on the stewardship of Natural Capital assets and developing ways to more fully price the benefit of ecosystem services to the economy.



What is Natural Capital

Natural Capital is the stock of natural resource assets (soil, water, air, plants, animals) that combine to yield a flow of economic, environmental and social benefits.



Natural Capital assets include fields, crops, livestock, reefs, wetlands, forests, waterways and oceans, that produce both 'goods' (food, fibre, timber) and 'services', including ecosystem services (carbon sequestration, clean water, biodiversity preservation) essential for sustainable economic and social welfare. Historically, Australia's Natural Capital assets were protected and managed by First Nations people, who relied on them for both their livelihoods and for spiritual and cultural reasons. Their knowledge of landscapes and application of management techniques, such as fire, is crucial to restoring and managing Natural Capital into the future.

This can be seen through the development of environmental markets, such as carbon markets and the emerging biodiversity market.

Pledges made by governments, businesses and communities to restore or protect natural ecosystems are also increasing. Subsequently, the advancement in nature-based solutions (NbS) is propelled by the recognition of the role of natural ecosystems in delivering economic and social wellbeing through food security, clean water, biodiversity preservation and carbon sequestration.

Portfolio overview

QIC Natural Capital is focused on investing in high-quality commercial agricultural land, at scale, that has the ability to deliver environmental outcomes across carbon, biodiversity and/or water quality alongside sustainable agriculture production.

Our portfolio currently consists of A\$53 million of assets under management and 8,915 hectares across two Queensland properties.³ For more detail on our practices on these assets, refer to Section 3 of this report.

Our Natural Capital team is working closely with our farm operators to implement sustainable land management practices and environmental projects that improve productivity, asset resilience and overall returns.

Our approach

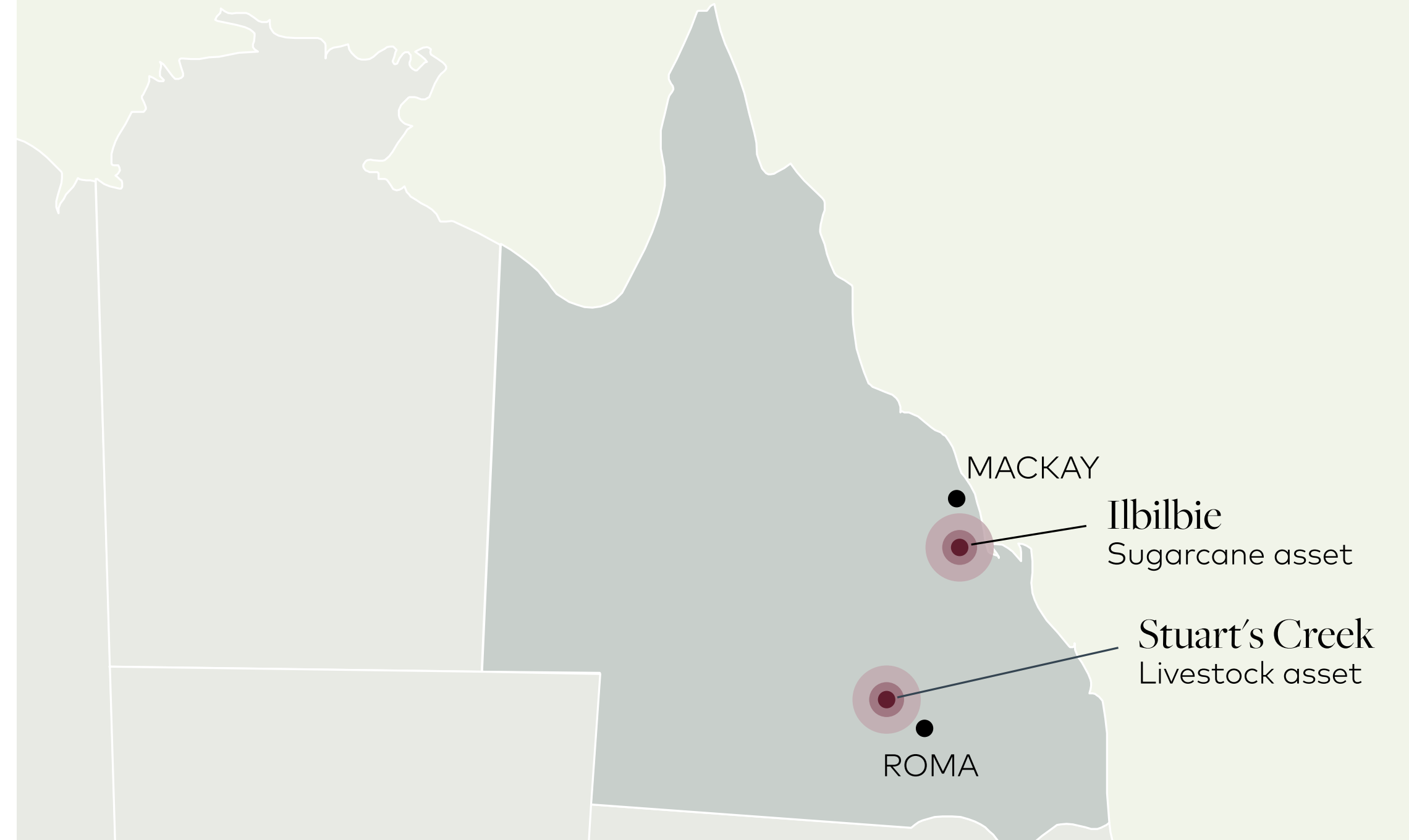
The Natural Capital team works closely with QIC's corporate ESG team to align with the organisation's broader ESG framework and Sustainable Investment Policy, supporting the appropriate consideration of ESG risks and opportunities through each stage of our investment process.

During 2023, we invested in a diversified portfolio of Queensland-based Natural Capital assets through our newly launched platform. On our properties, we plan to invest in a range of solutions to deliver carbon sequestration, biodiversity preservation and/or enhancement, and improved water quality outcomes alongside sustainable agriculture operations.

This will align with some of the relevant targets or indicators of four of the United Nations Sustainable Development Goals (SDGs):



Commercial agriculture underpinning the platform is crucial to achieving both commercial and environmental outcomes. Fifty percent of the world's habitable land is under agricultural management, and improving how this land is managed, while developing and implementing nature-based solutions, presents an opportunity to mitigate the impacts of climate change (see Figure 1 overleaf) and enhance outcomes for nature and biodiversity.



2
ASSETS³

A\$53m
ASSETS UNDER
MANAGEMENT

8,915
HECTARES

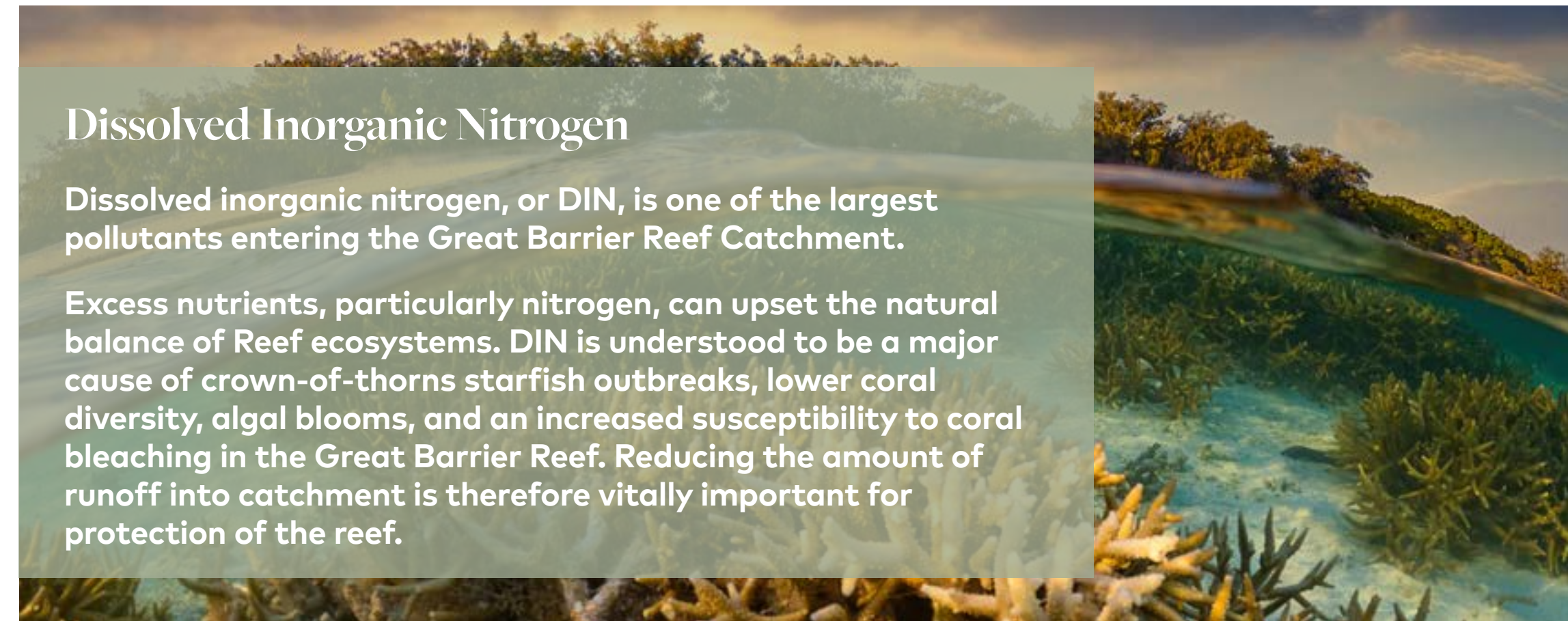
³ As at 31 July 2023.

Queensland presents a distinct opportunity in this regard, with approximately 88% of land being currently used for primary production.⁴

We will seek to deliver projects across our assets that deliver carbon abatement outcomes and generate high-integrity Australian Carbon Credit Units (ACCUs), focusing primarily on building soil organic carbon (SoC), regenerating native forest and environmental plantings. We also plan to continually monitor developments in new methods under which ACCUs can be generated, to understand their applicability and additionality in relation to our investments.

Delivering biodiversity outcomes and engaging with existing offset regimes, while also being cognisant of and positioning ourselves for the growth in the voluntary biodiversity credit market will be another key area of focus.

We will also prioritise investing in changes to management practices to deliver improved water quality outcomes on properties we invest in within the Great Barrier Reef Catchment. This will involve investing in projects that reduce dissolved inorganic nitrogen (DIN) and fine sediment run-off, which are two of the largest pollutant sources entering the catchment. These projects will generate a tradeable unit of pollutant reduction or 'reef credit(s)' under Eco-Markets Australia's framework and approved methodologies.⁵



⁴ Department of Agriculture & Fisheries, *Queensland agriculture snapshot*, 2018.
⁵ Eco-Markets Australia is an independent not-for-profit environmental markets administrator.

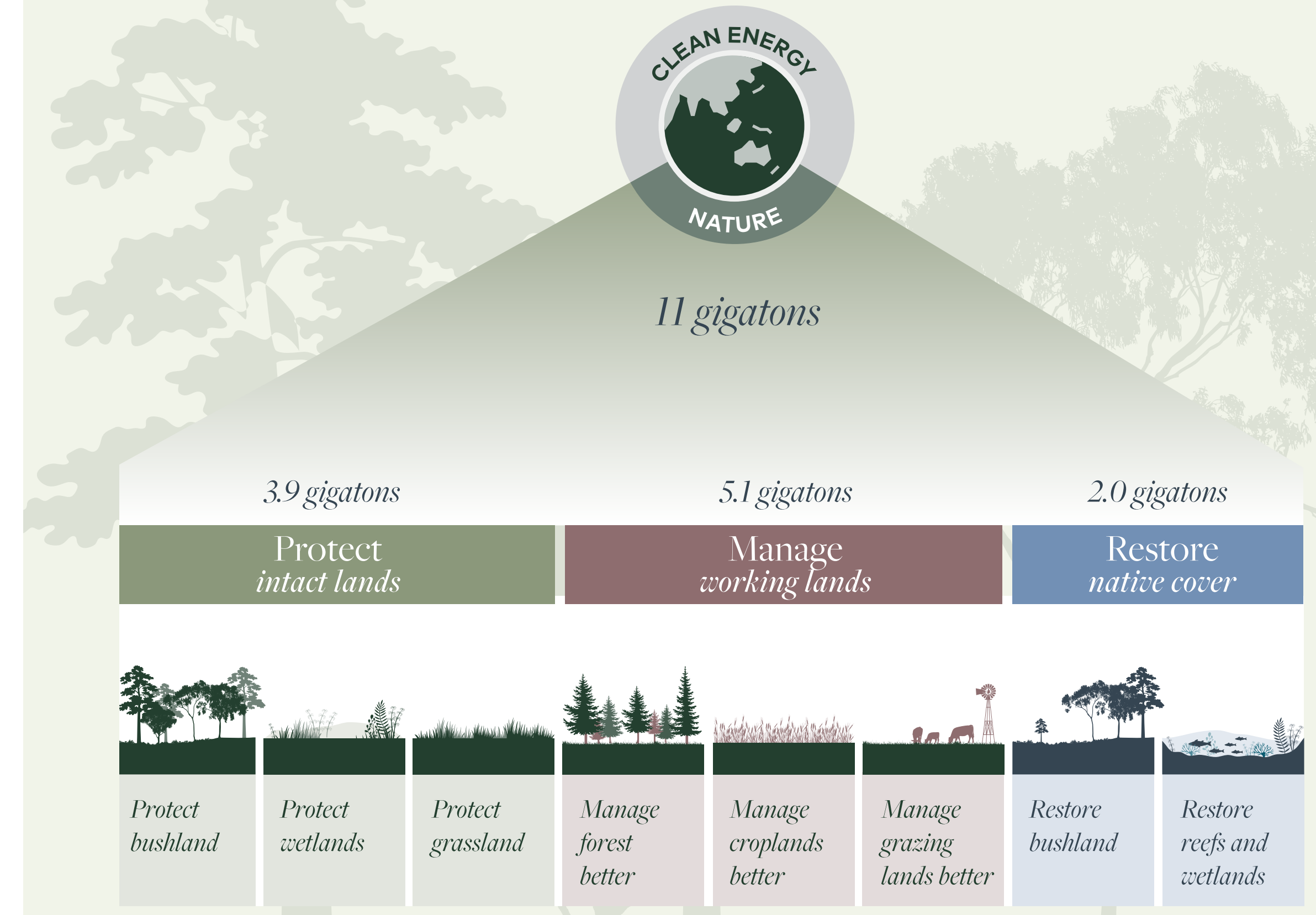


Figure 1: Mitigating the impacts of climate change⁶

⁶ Adapted from: Griscom et al., 2019, and Griscom et al., 2020. *Nature Conservancy Magazine*.

3. Our assets

We currently have two assets in our Natural Capital portfolio, both of which have been under QIC's management for less than 12 months.

Sugarcane asset | Ilbilbie

Our initial focus from a natural capital perspective has been to:

- understand the opportunity to deliver improved water quality outcomes
- explore the potential to build soil organic carbon.

The property is located within a high priority catchment for a reduction in DIN under the Reef 2050 Water Quality Improvement Plan, a joint commitment between the Australian and Queensland Governments. Fertiliser containing nitrogen changes into DIN once it mixes with soil and water, and its bioavailability to plants helps them grow. This availability means it is mobile in soil and can be lost in run-off or drainage into waterways.

We have been identifying and investing in initiatives to reduce run-off through managed fertiliser application. We have invested in yield monitoring technology to collect georeferenced data on crop yield and other characteristics, such as soil moisture content, while the crop is being harvested. Investing in this technology early on in our ownership will provide us with critical, data-driven insights, allowing us to evaluate the variation in yield distribution by paddock and identify areas of potentially high and low yields. This information can help manage fertiliser application more efficiently through variable rate application. We will align our application of fertiliser to the plant's specific level of usage to reduce the amount of DIN run-off entering the local catchment.



75 kilometres south of Mackay

571 hectares of land

~36,500 tonnes of sugarcane produced per annum⁷

⁷ As at 30 June 2023.

Sugarcane asset | Ilbilbie

Invest

Yield monitoring technology for crop yield

Insights

Identify yield distribution and high and low yield areas

Outcome

Efficient fertiliser application means reduced DIN run-off in local catchment

Beyond DIN, we are also looking at ways to improve the efficiency of pesticide use across the property. In partnership with a specialist agronomist we are looking to develop a tailored, spatially mapped, whole-of-farm pesticide management plan.

Pesticide initiatives delivered on the property include:

- assessment of existing spray rigs and calibrations as required
- nozzle upgrades and spray water analysis for the efficient use of pesticides, which in time will minimise run-off
- drone technology trialled for pesticide application in specific areas of the property, which has delivered workplace health and safety and cost efficiency benefits, as well as significant reductions in the amount of pesticide used compared to traditional delivery mechanisms (e.g. helicopter).

Healthy soil is the foundation of sustainable agriculture, and building soil organic carbon (SoC) contributes to improved soil health. SoC includes decaying plant matter, soil organisms and microbes, and other carbon compounds such as sugars, starches, proteins, and carbohydrates. Increasing SoC can lead to improved soil structure and water retention, and increased nutrient storage and supply.

Beyond the clear agricultural benefits, SoC can sequester emissions and act as a natural carbon sink, meaning it could play an important role in mitigating climate change. As with water quality, we are investigating potential initiatives that can be implemented to build SoC on-farm. One that is currently being reviewed is the introduction of mixed species cover cropping along with intercropping in targeted areas across the property. By identifying the right mix of cover crops to deliver both increases in SoC and overall soil health and structure, we are aiming to contribute to a reduction in input costs while increasing productivity over time.

Our water quality and carbon initiatives have the potential to contribute to improved local biodiversity outcomes, and we are looking to further identify and scope opportunities across the property from a biodiversity perspective over the coming year. A key focus will be the potential opportunity to improve the condition and/or extent of the non-cultivated area that exists on the property, particularly the riparian corridor vegetation.

SDG alignment

Relevant target(s)



14.1 By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution.



2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality.



13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.

Livestock asset | Stuart's Creek

QIC purchased Stuart's Creek, a large pastoral property located outside of Roma in central Queensland, in July 2023. This is the second property in our Natural Capital platform. Stuart's Creek already has a registered soil carbon project, with baseline sampling conducted in 2022. The delivery of the project, including starting to build SoC, is now a key focus for the Natural Capital team. Fencing and water infrastructure investments will be made to subdivide paddocks and continue the shift from set-stocking to rotational grazing, with increased stock density for shorter periods of time allowing for more even grazing and longer recovery periods for pasture.




Additionally, plans are being developed to renovate pastures in strategic areas to accelerate the return to a more diverse pasture mix. All these activities will support SoC growth over time, both sequestering carbon and contributing to improved productivity and overall asset resilience, particularly during periods of drought.

We are also looking at potential investments to improve biodiversity values across Stuart's Creek. The property supports a population of

koalas, an iconic species which was listed nationally as 'endangered' in February 2022, and is listed as 'vulnerable to extinction' on the International Union for the Conservation of Nature's (IUCN) Red List. The cover, extent, connectivity and condition of vegetation throughout Stuart's Creek is currently low.

The opportunity therefore exists to invest in the strategic regeneration of native woodlands and waterways to increase tree cover and

connectivity across the property. This initiative has the potential to support the habitat of existing koala populations, as well as allowing them to move safely through the landscape to other areas of vegetation that exist beyond the boundary of Stuart's Creek. Furthermore, this approach will look to support and potentially enhance two small areas of nationally Threatened Ecological Communities that are present on the property.

SDG alignment	Relevant target(s)
	15.5 Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and protect and prevent the extinction of threatened species.
	2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality.
	13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.



65

kilometres north west of Roma in central Queensland

8,344

hectare pastoral property

4. Workplace health and safety

Our Natural Capital team works closely with QIC's corporate workplace health and safety (WHS) team to ensure that appropriate processes and systems are in place to manage WHS risks.

Stuart's Creek and Ilbilbie both underwent independent third-party WHS audits on entering the platform. Action items based on the audit findings are being addressed at the properties, including the establishment of new bunded fuel tanks and a new chemical storage depot. These have been implemented alongside an incident reporting system to track performance and identify trends across key WHS performance metrics.

We recognise that safety requires ongoing improvement and vigilance and we will continually review our approach to maintain a safe working environment for those operating our assets.

5. Modern slavery

QIC is committed to respecting human rights in its operations and supply chains.

In line with this commitment, we are focused on understanding and addressing Modern Slavery risks associated with our operations and investments.

Modern Slavery refers to serious situations of exploitation, resulting in a person's freedom being undermined or deprived. This can occur in instances where a person cannot refuse or leave work because of threats, violence, coercion, abuse of power or deception. We apply QIC's Modern Slavery Standard and processes to assess, manage and mitigate this risk, along with detecting and responding to actual or potential incidents.

This includes reviewing existing operations and understanding risks within asset supply chains, and we will engage third-party data providers to help us understand and prioritise key risk areas. As with our workplace health and safety practices, we will continue to refine our approach to Modern Slavery over time.

6. Rural communities

Through our Natural Capital platform, we seek to support rural communities by providing employment opportunities, engaging local suppliers and, where possible, offering opportunities for succession.

As part of our investment screening process, we identify leading local operators to partner with and manage our assets. Where appropriate, we offer the operating partner the opportunity to invest a small equity share in the asset and the first right to buy back at the end of the investment period. This provides strong alignment on the operation of the asset and has the potential to help address issues around succession planning — a significant challenge facing Australia’s agricultural sector.

Furthermore, identifying and engaging with local suppliers for outsourced services is a key focus, both from an agronomic and an environmental services perspective. Using local business to support our operations further supports the economic resilience of rural communities.



7. Looking ahead

Natural Capital accounting

The Fund is committed to contributing to the development of natural capital accounting, with the goal of demonstrating the economic benefits that can flow from investing in nature-based solutions.

We are a member of the Australian Sustainable Finance Institute's Finance and Investment Natural Capital Advisory Group on 'Valuing Natural Capital'. This group has been established to explore key natural capital indicators and their links with agricultural productivity, nature risk dependencies, and climate adaptation and resilience (including carbon sequestration benefits). The group also aims to identify and link natural capital indicators to key financial indicators, to enable financial institutions and agricultural businesses to better understand risk and productivity.

Through our involvement, we seek to understand current best practice and actively contribute to recommendations for key indicators in the Australian context. This work will help us develop our own set of key

indicators to use in our annual natural capital accounting for the platform, with the aim of having these reported alongside our financial outcomes each year.

Taskforce on Nature-related Financial Disclosures

The TNFD is a global, market-led initiative with the mission to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related risks and opportunities.

The Framework has been developed over the past 18 months under different beta versions for consultation and feedback, with the final framework due to be released in September 2023. While we have been actively following the developments through the beta phases, we will review the finalised framework in September and look to disclose against its recommendations in future years as part of our commitment to transparency. We see the development of this framework following a similar trajectory to the TCFD, and believe it is

an important catalyst for improving investor understanding of nature-related risks and opportunities, promoting the allocation of capital to vehicles that are investing in nature-based solutions.

Reducing our emissions

QIC Natural Capital intends to develop an emissions profile of the assets we invest in and identify initiatives to reduce those emissions over time.

Agriculture is responsible for approximately 13% of Australia's greenhouse gas emissions⁸ and is considered a hard-to-abate sector. This presents both a challenge and opportunity to identify commercial opportunities to reduce emissions. To do this, we plan to invest in both change management practices and existing and emerging ag-tech solutions to drive emissions reductions, including:

- investing in renewable energy
- trialling new (lower emission) inputs where available

- driving operational efficiencies
- managing existing vegetation to improve its condition and/or extent.

For livestock, investigating the rapidly evolving feed additive space will also be a key focus to reduce emissions associated with enteric methane. We are investigating potential opportunities in this space, including those coming from synthetic products as well as the naturally occurring red seaweed, *Asparagopsis*.

We will continue to monitor developments in this area and believe significant progress will be made over the decade, delivering material on-farm methane emissions reduction. We look forward to reporting on emissions reduction initiatives in future reports.

⁸ Climate Change Authority, <https://www.climatechangeauthority.gov.au/sites/default/files/2021-03/2021Factsheet%20-%20Agriculture.pdf>

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