2024 Liquid Markets Group

SUSTAINABILITY REPORT

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ESG

This ESG Report contains information about QIC's ESG goals, targets, intentions, or expectations, including for climate. It is subject to change, and QIC cannot guarantee it will meet any goals, targets, intentions, or expectations. ESG-related calculation, methodologies and data collection and reporting practices are evolving. QIC recognises that other asset managers may implement different frameworks, methodologies, and tracking tools. Different measurement techniques can vary in precision and may result in materially different measurements. They are also subject to measurement uncertainties resulting from inherent limitations in the nature and methods used to collect, calculate and/or analyse ESG data. QIC is unable to guarantee that the steps it has taken (or steps taken by the third parties it relies on) to mitigate, prevent or otherwise address material ESG topics will be successful, completed as expected or at all, or will apply to or continue to be implemented in the future.

LMG net zero emissions target (pooled fixed income funds)

QIC's net zero carbon emissions targets for our Liquid Markets Group have been set for scope 1 and 2 emissions only and are approved by the QIC Board. These targets apply to the QIC Cash Fund, QIC Cash Enhanced Fund, QIC Australian Fixed Interest Fund and QIC Short Term Income Fund, but do not apply to securitisation bonds. Targets are based on emissions intensity, measured using GDP for government bonds, or revenue for corporate bonds. QIC invests in corporate and government bonds. Where these bonds are included in QIC's net zero carbon emissions targets, QIC relies on bond issuers to adopt targets they reasonably believe they can meet and to take the necessary steps to achieve their targets. While QIC engages with these bond issuers to monitor their progress, QIC cannot guarantee that these issuers will be successful in reducing their carbon emissions.

Disclaimer on uncertainties in climate modelling and data

QIC uses reasonable endeavours to ensure the information and modelling it relies on to make any climate-related forward-looking statements is current. However QIC also acknowledges that there are a range of uncertainties involved in modelling climate-related scenarios and impacts within and across investment classes. These uncertainties are a result of:

- limitations on, or a lack of, reliable emissions and other climate-related data;
- lack of standardised terminology;
- variables in methodologies; and/or
- the speed at which climate data, modelling and methodologies are evolving.

As a result, readers should not place undue reliance on climate-related forward-looking statements given these limitations.

Contents

We acknowledge and respect the traditional lands and cultures of First Nations peoples in Australia and globally and pay our respects to Elders past and present. We recognise First Nations peoples' longstanding and ongoing spiritual connections to land, sea, community and country.

1. Introduction

Message from our Head of Liquid Markets Group

Since 2016, the Liquid Markets Group (LMG) has published an annual report on our sustainability activities across fixed income, multi asset overlay and implementation mandates. In FY23 we reported via QIC's annual sustainability report, which incorporates Task Force on Climate-related Financial Disclosures (TCFD) aligned reporting. This standalone report provides more detail on the sustainability activities of LMG that we hope will be useful for investors.

LMG seeks to integrate sustainability considerations throughout our investment process, and sustainability is a teamwide KPI. Our sustainability assertions are supported by:

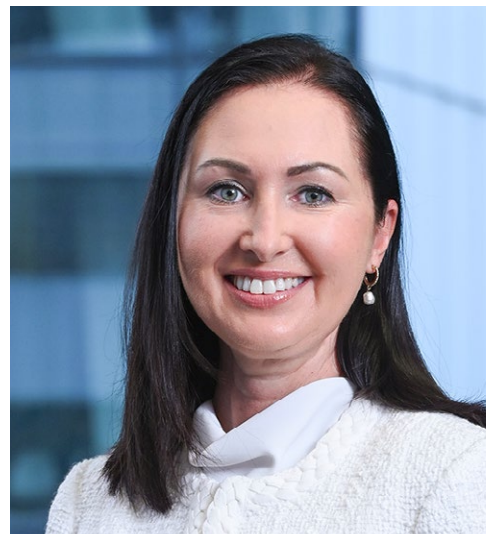
- A recent PwC internal audit of marketing materials that tested selected claims for compliance with QIC's Marketing Standard and found 100% substantiation of claims by LMG
- Peer recognition for the third time as KangaNews Sustainability Fund Manager of the Year
- Strong PRI scores[1] of 97% and 5 out of 5 stars on our fixed income assessments.

QIC became a signatory to the Net Zero Asset Managers initiative in June 2023 and I'm pleased to share that LMG has set net zero carbon emissions targets (scope 1 and 2) across its pooled products by 2050, with interim targets set for 2030 to support progress towards these commitments. These targets have been set for:

- QIC Cash Fund
- QIC Cash Enhanced Fund
- QIC Australian Fixed Interest Fund
- QIC Short Term Income Fund.

Our net zero targets apply to physical holdings across corporate and sovereign issuers, including cash, but do not include securitisation bonds. We have undertaken work to close any data gaps[2] and ensure the coverage of our targets is as broad as possible. Over time, we will look to extend our targets to include scope 3 emissions of our issuers/investments.

As an NZAM signatory, we are required to invest in climate solutions as part of our decarbonisation pathways. We have a track record of investing in green bonds and sustainability bonds. As we embark on our pathway to net zero, we will continue to monitor this space and invest in these products as appropriate[3]. We are also required to engage with investee companies, a process LMG has longstanding experience in.



Beverley Morris
Head of Liquid Markets Group

1 Results per UNPRI 2023. QIC is a UN PRI signatory and pays an annual fee. There is no guarantee that any of the steps taken by QIC and/or third parties to mitigate, prevent or otherwise address material ESG topics will be successful, completed as expected or at all, or will apply to or continue to be implemented in the future.

2 Third party ESG data providers do not cover every security in portfolios. We seek to reduce data gaps by sourcing data from issuers directly or from other sources such as government emissions reporting bodies.

3 QIC's net zero carbon emissions targets have been set for scope 1 and 2 emissions only and are approved by the QIC Board. These targets apply to the QIC Cash Fund, QIC Cash Enhanced Fund, QIC Australian Fixed Interest Fund and QIC Short Term Income Fund, but do not apply to securitisation bonds. Targets are based on emissions intensity, measured using GDP for government bonds, or revenue for corporate bonds. QIC invests in corporate and government bonds. Where these bonds are included in QIC's net zero carbon emissions targets, QIC relies on bond issuers to adopt targets they reasonably believe they can meet and to take the necessary steps to achieve their targets. While QIC engages with these bond issuers to monitor their progress, QIC cannot guarantee that these issuers will be successful in reducing their carbon emissions.

Scope of this report

This report looks at ESG activities for FY24 across LMG. It covers activities relevant to all of LMG's mandates, including derivative overlays and segregated fixed income mandates, as well as LMG's fixed income pooled products including the QIC Cash Fund, QIC Cash Enhanced Fund (CEF), QIC Australian Fixed Interest Fund (AFI) and the QIC Short Term Income Fund (STIF).

These activities include:

- Active ownership — engagement, external ESG committee contributions and bondholder voting
- Climate, including carbon emissions and shadow carbon pricing
- Derivatives — guidance and our thoughts around current practicalities of measuring carbon emissions of derivatives (particularly of relevance to LMG's overlay mandates)
- Net zero targets for LMG's pooled fixed income products
- Nature and biodiversity screening
- Modern slavery monitoring — for fixed income and overlay mandates
- Social screening (modern slavery and human rights, diversity)
- Other sensitive sector screening
- Labelled Bonds — investment in ESG solutions
- Counterparty ESG monitoring — particularly of relevance to overlay mandates and funds with uncleared derivative exposures.

Our approach to incorporating ESG into the investment process has been covered in previous reports available on the QIC website, with process enhancements noted throughout this report.

Additional TCFD reporting on LMG's fixed income pooled products can be found in the QIC Sustainability Report available on QIC's website. The TCFD report outlines governance, strategy, risk management, and metrics and targets that apply to QIC products including LMG's pooled fixed income and cash products. It should be read in conjunction with this report.

2. Active ownership and engagements

As part of our active ownership commitment, QIC is a:

- member of Climate Action 100+ and LMG is contributing to the collaborative engagement with Incitec Pivot, having previously contributed to the Boral engagement
- collaborating investor on the PRI's "Sovereign Engagement on Climate Change" Australian pilot
- signatory to Investors Against Slavery and Trafficking Asia Pacific (IAST), contributing to a collaborative engagement with an Australian public company.

During the financial year, LMG credit and portfolio management staff undertook 63 engagements. We include charts of total engagements in this report because a number of the engagements indirectly benefit all mandates due to the relevant information they provide to an industry or the financial system. Our credit approval process also incorporates ESG considerations, which can dominate a decision not to participate in a deal. Sometimes the ESG information is sourced via a pre-investment engagement so information about that engagement would not appear in fund level engagement data.

LMG engagements FY24

The following charts show LMG engagements during the financial year categorised by issuer type, industry, engagement format, and topic.

Table 1: FY24 engagements mapped against fund holdings

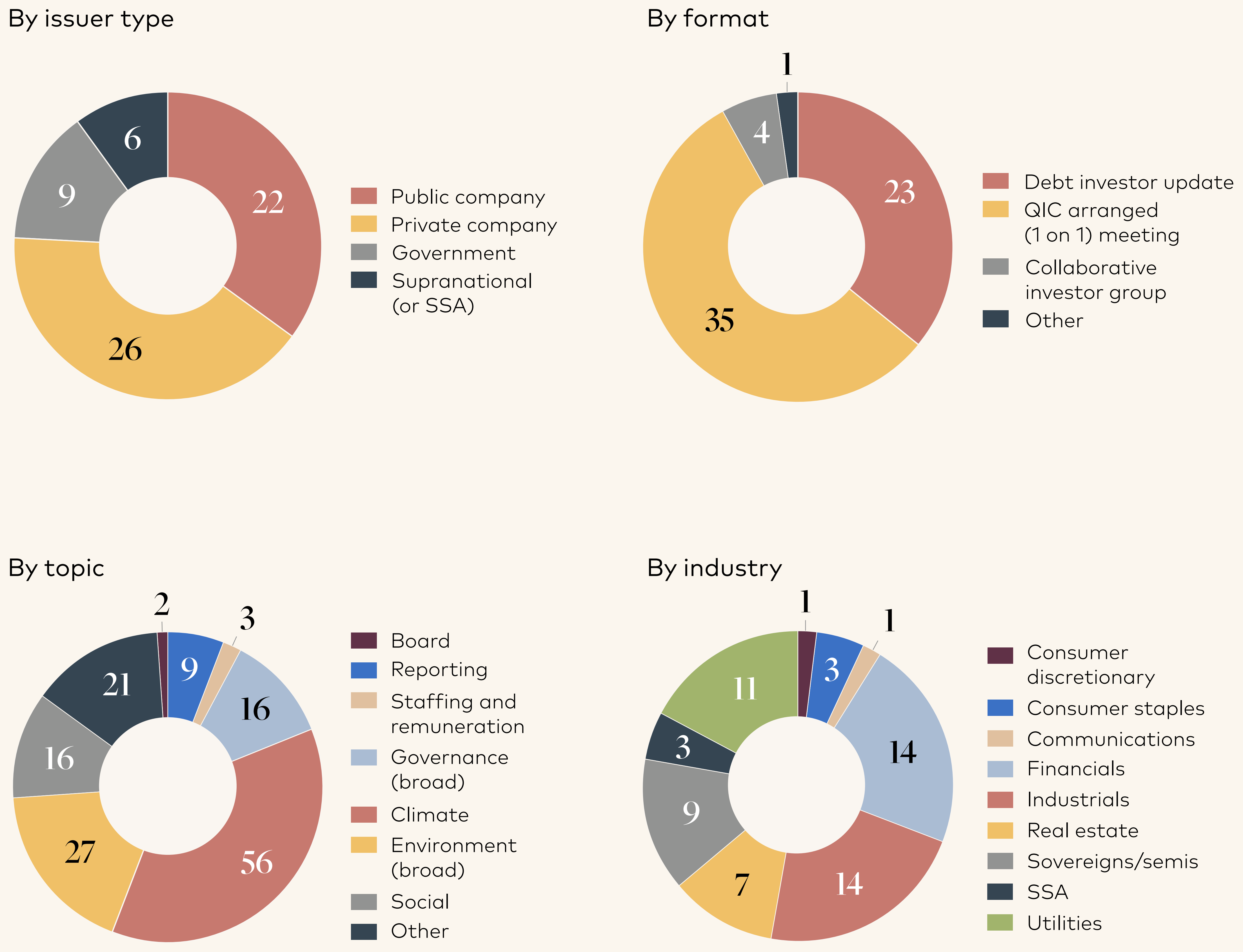
	Cash Fund	CEF	AFI	STIF
Total engagements as % of fund market value	64.9%	52.4%	50.0%	56.5%

Source: QIC, Aladdin at 28 June 2024

Since we started tracking engagements in 2016 our view of impacts include:

- improvements in the understanding of sustainability issues at executive levels (for example corporate treasurers now talk about sustainability rather than referring to an ESG specialist)
- an openness to discuss and collaborate on sustainability practices and plans
- improvement in the provision of sustainability data
- increased focus on setting climate targets
- increase in issuers proactively responding to controversies
- a greater awareness of the influence of ESG rating agencies
- increase in the number and formalisation of collaborative engagements, particularly this year.

Figure 1: LMG engagements FY24



Source: QIC record-keeping, Aladdin at 28 June 2024.

CASE STUDY

Engagement on alleged bank financing of deforestation

Objective

We conducted a direct engagement with a leading agri-food bank to discuss allegations it had provided a significant number of loans to Brazilian farmers who the environmental agency had classified as illegal deforesters. The engagement sought to confirm the allegations and understand any process enhancements and policy changes to determine our course of action.

Discussion points

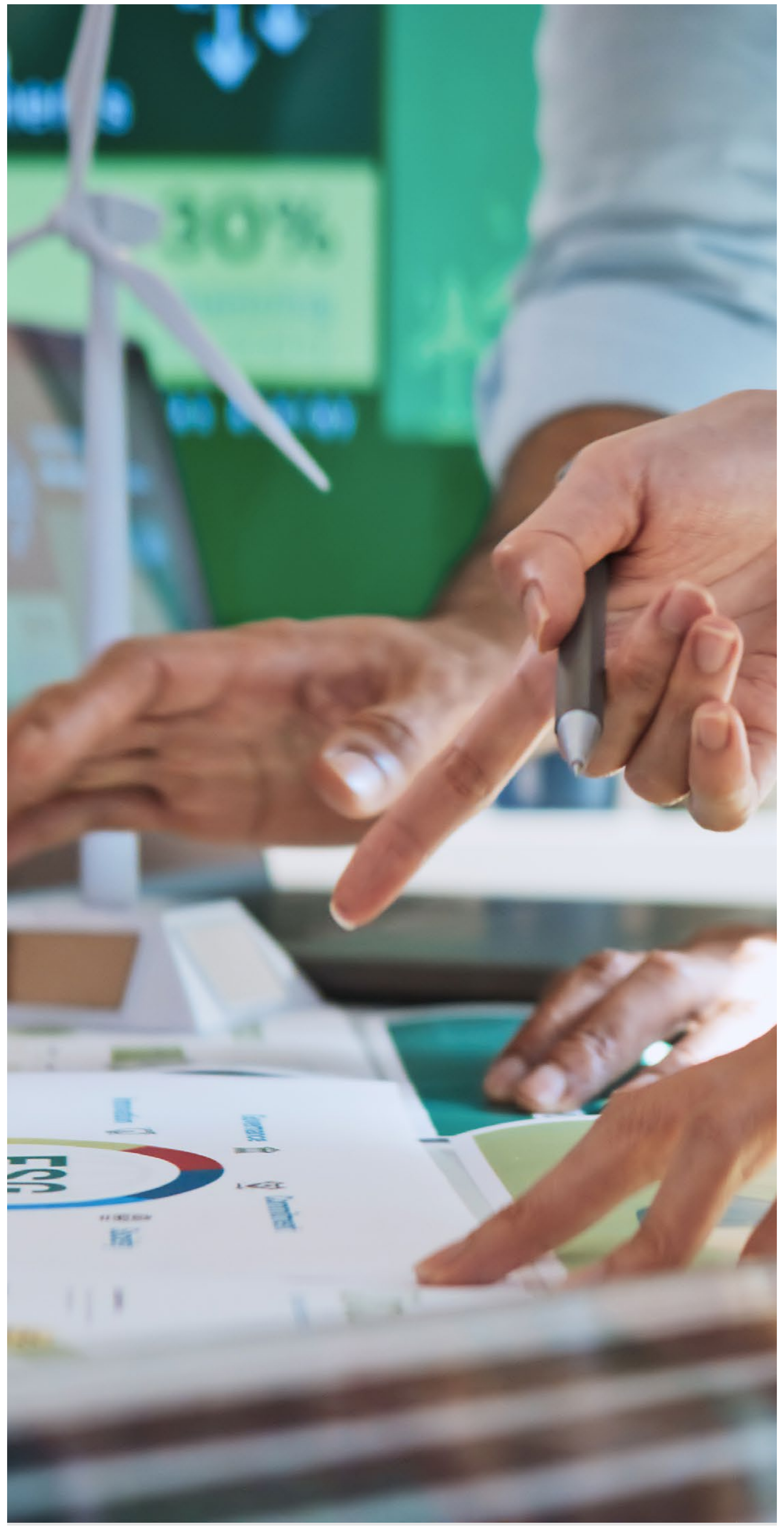
- The bank has put in place a dedicated deforestation policy that prohibits the onboarding of clients or business partners that have been involved in illegal deforestation in the last five years
- The bank acknowledged that they still currently have outstanding financing commitments to businesses that have been involved in illegal deforestation but are not able to debank those clients until the facilities expire for contractual reasons. Once these expire, the policy regarding prohibiting onboarding will apply
- The terms and conditions of all new client financing agreements now include a clause that allows the bank to terminate the relationship if the client is found to be involved in illegal deforestation
- The bank has said they have zero tolerance to breaches of the illegal deforestation clause with several clients already debanked
- The bank has also put in place a requirement for downstream clients to have a sourcing and traceability mechanism to assess suppliers when sourcing from regions at risk of deforestation or adverse biodiversity impacts
- The bank has said it will not accept land in high-risk geographies as collateral if it has been subject to deforestation in the last five years, whether legally or illegally
- The bank has partnered with WWF Brazil to measure, monitor and incentivise responsible, regenerative land use in Brazil's soy sector
- The bank committed to setting concrete nature-related targets in 2024, including targets related to halting deforestation and land conversion
- The bank was involved in the co-launch, and was one of the first signatories to, the Finance for Biodiversity Pledge and Taskforce on Nature-related Financial Disclosures (TNFD)
- The bank has been lobbying the government in its home country to introduce incentives to promote sustainable and regenerative farming.

Outcome

The engagement responses gave us confidence that the bank's dedicated deforestation policy contains sufficient actions to address the risk of financing illegal deforestation in the agri-food sector into the future. We also view as positive the initiatives the bank has put in place to help agri-food clients transition to more sustainable farming methods. Nevertheless, we will continue to monitor for allegations of the bank's involvement in future deforestation related controversies to ensure the deforestation policy is being effectively implemented. If this is a relevant risk for other banks (that bank agri-food) we will follow a similar process to engagement with this bank.

CASE STUDY

Engagement on SBTi target validation challenges for UK retail banks



Objective

We arranged a meeting with a leading UK retail bank to get more detail on their net zero transition plan and discuss progress and challenges in relation to getting their net zero targets validated by the Science Based Targets initiative (SBTi).

Discussion points

- The bank highlighted that meeting net zero targets has become more challenging with the UK government walking back some of the requirements for reducing household emissions that the bank has been lobbying for, impacting the rate of emissions reductions within its mortgage book.
- We discussed the Net Zero Banking Assessment Framework developed by the Transition Pathway Initiative and the bank's response to the key criteria, including the inclusion of both on and off-balance sheet activities in the calculation of financed emissions. The bank noted that its current net zero commitment only includes on-balance sheet activities, but it is working on collecting off-balance sheet data for future inclusion.
- The bank has not yet considered the inclusion of facilitated emissions from underwriting debt issues.
- The bank does include green/ESG debt covenants in their lending criteria as part the bank's sustainability-linked loan framework.
- The bank has not yet issued in labelled bond format, but this is something they are considering. As mortgages make up a sizeable part of the bank's lending, the bank thinks that the simplest way to issue a green instrument would be in the form of a green RMBS deal. However, the bank could not give an indication of potential timing as the current priority for the securitisation team is capital optimisation and they do not currently have the resources to collate the necessary data (mortgages on EPC A, B and C rated properties).
- The bank currently offers mortgage customers a cashback reward for completing an eligible green home improvement (heat pump, solar, insulation, etc.). The bank is mindful though of the need to consider a just transition with respect to sustainable lending and not exclude the lower income bracket from potential benefits of green home improvements.

Outcome

We will continue to monitor and engage on the bank's net zero commitments, including the expansion of financed emissions coverage to include off-balance sheet exposures and facilitated emissions. We have also engaged with other banks in the UK facing similar challenges, but we recognise this challenge requires government policy initiatives and has significant social implications.

CASE STUDY

PRI Sovereign Engagement with Australia

Objective

The PRI is piloting a collaborative Sovereign Engagement Initiative to discuss climate risk with Australia. The engagement "seeks to assist Australian governments to take all possible steps to mitigate greenhouse gas emissions and build resilience toward climate change damage in line with the Paris Agreement and stabilising average global warming to 1.5°C."[4]

QIC successfully applied to be a collaborating investor given the influence of both sovereign policy over investments we make and the importance of sovereign bonds in investment portfolios. We are a participant within the pilot's regulator stream.

Discussion

- Regular engagements are held with government and semi-government entities including debt management offices, regulators, departments and government businesses
- Information about individual meetings is not publicly available, however feedback from meetings indicates the engagement is having benefits for both investor participants and targets
- Collaborators have provided feedback on the Australian sovereign green bond program and input to impact reporting expectations. Most recently we joined an investor delegation for an 'in country visit' jointly hosted by the PRI and IGCC, meeting with Federal politicians, departmental and government corporation representatives, Ambassadors and debt management offices
- The pilot engagement program has been reviewed by a consultant to ensure outcomes are meaningful and the engagement approach is appropriate.

Progress

The pilot sovereign engagement is ongoing and is expected to be expanded to other sovereigns.

Participants, including collaborating investors and government representatives, have noted the mutual benefits of the ongoing discussion.

4 Collaborative Sovereign Engagement on Climate Change, PRI (unpri.org)

Bondholder consent requests

During the financial year we received one bondholder consent request relating to an issuer held across segregated mandates and the Short Term Income Fund.

Whilst we were comfortable with some of the proposed amendments to a Guarantee Deed, in our view one amendment was not in the best interest of bondholders. The structure of the consent request required an 'all or nothing' vote, so we elected to vote against the proposal.

Table 2: FY24 bondholder consent voting record

For	Against
0	1

Source: QIC record-keeping at 30 June 2024.

ESG-focused committees

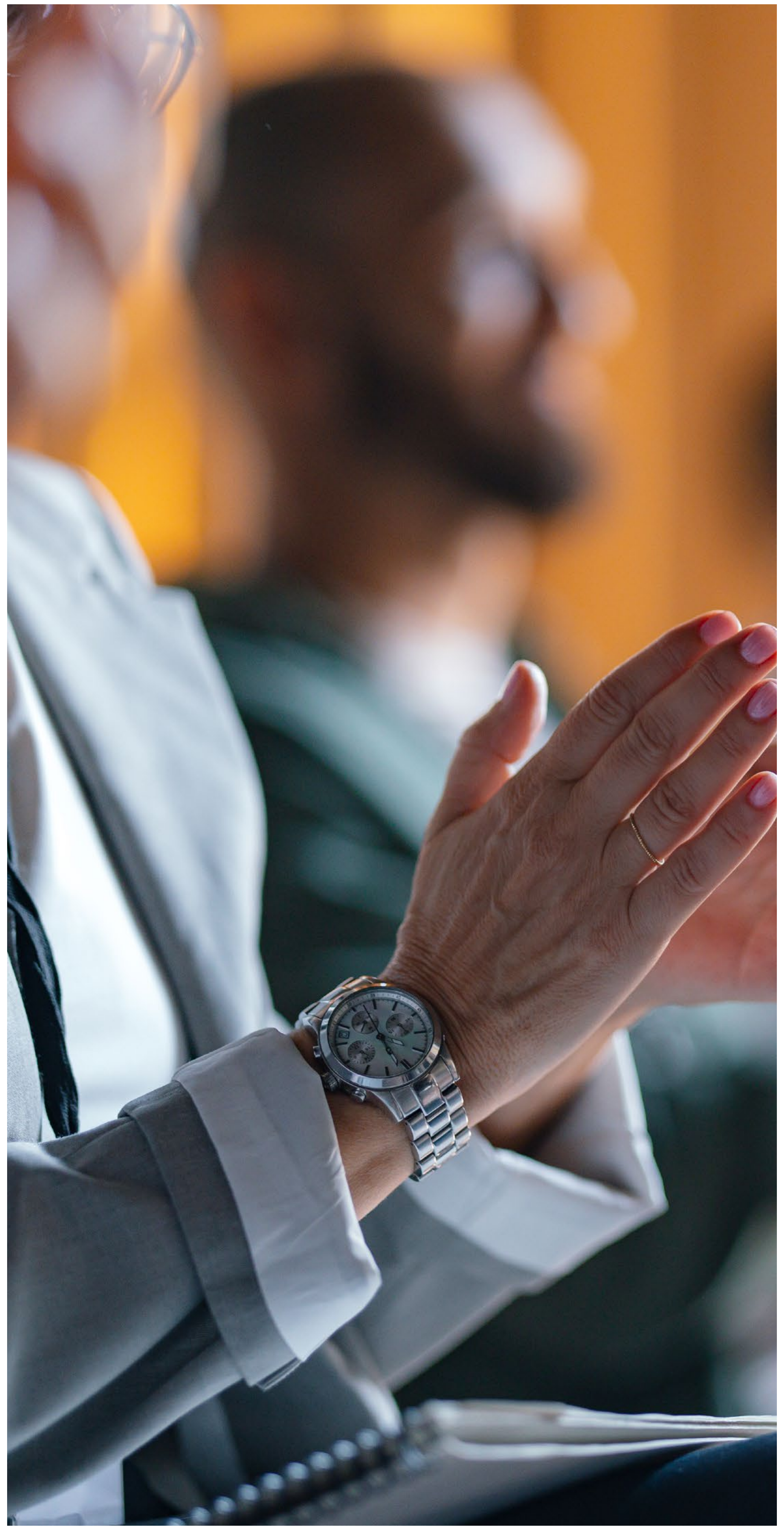
During the financial year, various LMG staff members participated in a number of industry-wide ESG committees to contribute to market governance, ESG thought leadership and collaboration. Table 3 lists our contributions. QIC is also a member of other industry initiatives with details provided in the QIC Sustainability Report.

Table 3: Active ownership committee contributions

Industry group	Forum/initiative	Purpose	LMG contribution
Investor Group on Climate Change (IGCC)	Climate Action 100+ Corporate Engagement	IGCC coordinates investor participation in the global Climate Action 100+ project in Australia and New Zealand. QIC is a collaborator on Climate Action100+ corporate engagements.	LMG staff previously provided research support to an engagement with Boral (now delisted) and now Incitec Pivot, a bond issuer in the Australian market
Australian Sustainable Finance Institute (ASFI)	Leadership Forum/ Leadership Working Group	Timebound forum bringing together finance leaders to share and learn best practice strategies to transform sustainability leadership. Participants are selected following a submission process.	Marayka Ward, Director, Fixed Income Strategy (retired from the group during FY24 and replaced by representatives from QIC ESG team)
UN PRI	Sovereign Debt Advisory Committee	The broad objectives are: • Advise PRI on its program to identify how ESG factors are considered when investors allocate capital to sovereign debt • Promote more systematic and transparent incorporation of ESG factors in investment decisions in sovereign debt • Work with various expert working groups PRI may set up to address ESG consideration in sovereign debt • Review and advise on material to be published as part of this workstream • Support outreach and awareness raising efforts for this workstream	Marayka Ward, Director, Fixed Income Strategy
	Collaborative Sovereign Engagement on Climate Change (Australian Pilot)	The Collaborative Sovereign Engagement on Climate Change is an investor-led, PRI-coordinated initiative to support governments to act on climate change. The initiative's aim is for investors to work collaboratively to support governments to take all possible steps to mitigate climate change, in line with investors' fiduciary duty to mitigate financial risk and maximise long-term value of assets.	Marayka Ward, Director, Fixed Income Strategy Alison Ewings, General Manager, Corporate ESG team

Industry group	Forum/initiative	Purpose	LMG contribution
Australian Financial Markets Association (AFMA)	Board of Directors	Responsible for governance of AFMA, the industry association promoting efficiency, integrity and professionalism in Australia's financial markets	Beverley Morris, Head of Liquid Markets Group
	Debt Capital Markets Committee	Governance committee that maintains the AFMA Debt Primary Market Conventions for the primary issuance of medium and long-term non-government debt securities as well as the AFMA Debt Primary Market Guidelines that promote fair and effective markets	Richard Garland, Director, Fixed Income Portfolio Management
	Debt Securities Committee	Governance committee that maintains the AFMA Long-Term Government Debt Securities Conventions and Credit Product Conventions for secondary trading activity government and credit securities including credit derivatives	Shaun McGinty, Senior Manager Trading Tom Kummerow, Portfolio Manager
	Inflation Products Committee	Governance committee that maintains the AFMA Inflation Product Conventions which set the trading protocols for inflation products in the Australian market	Brett Solomons, Senior Portfolio Manager Andy Lin, Senior Portfolio Manager
	Negotiable/Transferable Instruments Committee	Governance committee that maintains the AFMA Negotiable/Transferable Instrument (NTI) Conventions which set the trading protocols for Australia's short-term discount securities market and supports the market that determines the BBSW rate	Tom Kummerow, Portfolio Manager Scott McGuane, Portfolio Manager
	Swaps Committee	Governance committee that maintains the AFMA Interest Rate Derivatives Conventions which set the trading protocols for interest rate derivatives products in the Australian market, integral to price setting for domestic and international bond issuance	Andy Lin, Senior Portfolio Manager Brett Solomons, Senior Portfolio Manager
	Carbon Committee	An energy committee providing guidance and policy liaison for trading of carbon products	Scott Pappas, Senior Portfolio Manager Marayka Ward, Director, Fixed Income Strategy
Global FX Committee	Co-Vice Chair	A forum bringing together central banks and private sector participants with the aim to promote a robust, liquid, open, and appropriately transparent FX market in which a diverse set of participants, supported by resilient infrastructure, are able to confidently and effectively transact at competitive prices that reflect available information and in a manner that conforms to acceptable standards of behaviour.	Stuart Simmons, Director, Head of Multi-Asset Solutions
Investors Against Slavery and Trafficking (IAST)	Collaborative engagement	A collaborative, investor-led project established to engage with Asia-Pacific companies to promote effective action in finding, fixing and preventing modern slavery in operations and supply chains.	LMG has nominated an investee company for collaborative engagement

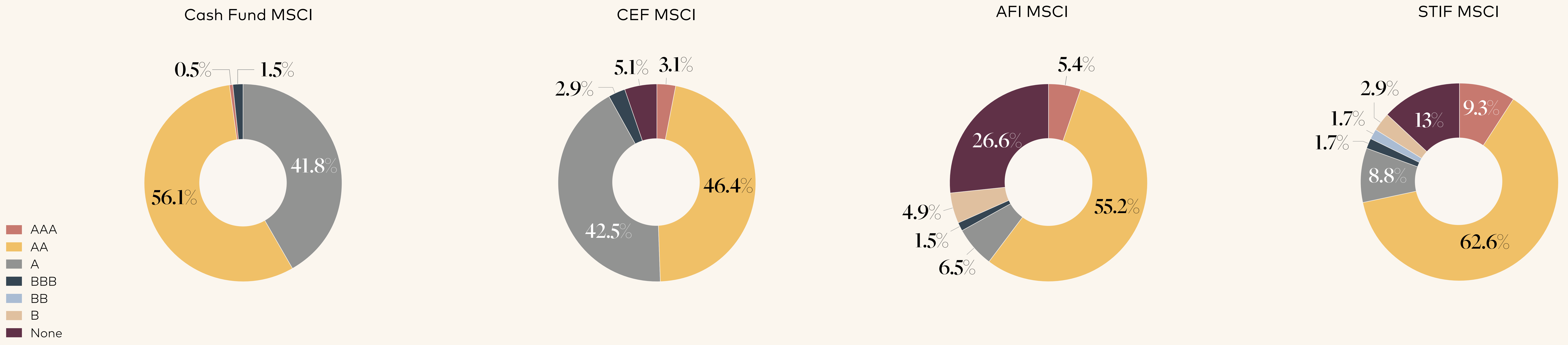
Source: QIC at 30 June 2024



3. ESG ratings

The following graphs show the ESG rating breakdown of our pooled funds. LMG uses MSCI ESG Manager as our primary ESG data provider.

Figure 2: ESG rating breakdown by fund



Source: QIC, Aladdin, MSCI at 30 June 2024. **Past performance is not a reliable indicator of future performance.**

4. Climate data

Carbon emissions data

We have been sourcing data and monitoring portfolio carbon emissions since 2018. This includes corporate and government/quasi government securities.

The following tables detail emissions data for physical exposures in LMG's pooled funds along with relevant benchmark information. We source data from MSCI ESG Manager, and where unavailable will also source from issuers directly or other sources such as government reporting. This is a data-intensive process, particularly given the proportion of unlisted domestic and Kangaroo issuers in the Australian dollar debt market. However, we believe it is important to close as many data gaps as possible to give a fulsome estimate of portfolio emissions and to seek to avoid greenwashing risk, which could arise if third party data coverage is low or higher emitting investments are not included because of data gaps.

In some cases, coverage percentages will be below 100% because data is not available from ESG data providers, or it is not required to be published by issuers though this will likely improve with the passage of climate reporting regulation.

In other cases, the percentage coverage for a fund is over 100%. This is because at the date of reporting some portfolios are using reverse repurchase agreements to lend bonds such as Australian Commonwealth Government Bonds and reinvest the proceeds. Current guidance around emissions reporting (carbon accounting rules) requires us to include physical securities where data is available. However, the lending of government bonds does not have the impact of netting emissions for reporting purposes — hence we count the emissions of the security being lent and the emissions of the security being purchased with the proceeds. While these trades are not derivatives as such, we have reviewed emerging guidance for derivatives that suggests investors could report gross emissions of long derivatives and short derivatives positions separately. However, there continues to be data availability challenges around derivatives, which we address later.

Emissions intensity as at 28 June 2024

Table 4: Weighted Average Carbon Intensity (WACI) of physical securities

Measure	Data source	Cash Fund	CEF	AFI	AFI benchmark	STIF
Unweighted WACI						
Corporate intensity (scope 1 & 2) (tCO_2e/US$1M sales)	MSCI/modelled	4.8	23.3	44.3	12.5	99.9
% MV coverage		97.9	96.1	60.1	19.1	97.3
Government intensity (scope 1 & 2) (tCO_2e/US$1M GDP/GSP)	MSCI/modelled	2.3	1.5	144.5	251.6	49.1
% MV coverage		0.7	0.4	46.5	79.9	14.4
Total scope 1 & 2 intensity	**Calculated**	**7.2**	**24.8**	**188.8**	**264.1**	**149.0**
% MV coverage	*	**98.6**	**96.6**	**110.1**	**99.0**	**111.7**
Intensity sales (scope 3)	MSCI	853.8	771.8	343.2	239.8	589.7
% MV coverage		95.0	94.9	52.5	18.1	87.9
Re-weighted WACI (100%)*						
Total scope 1 & 2 intensity	**Calculated**	**7.3**	**25.7**	**177.1**	**266.7**	**133.4**

Source: QIC, Aladdin, MSCI, QIC Model (proprietary) or Other Source (Company reports, Government portals) at 28 June 2024.
* Note: 1.4% of Cash Fund NAV, -2.5% of CEF NAV, -12.4% of STIF NAV and -10.1% of AFI NAV are in Repo & Derivative Securities, which have been excluded from this report.

Absolute emissions as at 28 June 2024

Table 5: Absolute emissions of physical securities of each LMG Pooled Fund

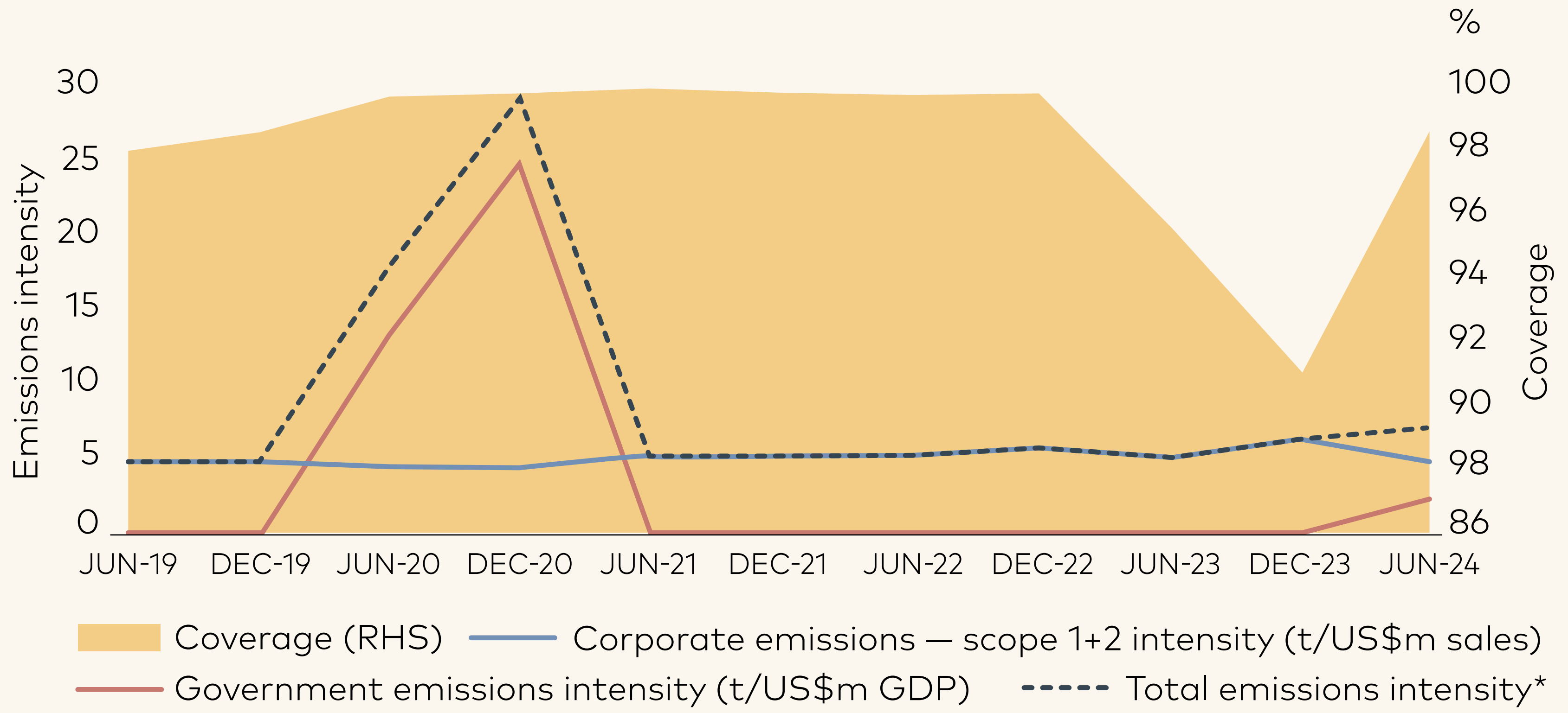
Measure	Data source	Cash Fund	CEF	AFI	AFI benchmark	STIF
Unweighted						
Absolute financed emissions						
Absolute scope 1 (tCO_2e)	MSCI/modelled	23,481	84,663	281,763	32,687	524,889
% MV coverage		97.9	96.1	60.1	19.1	97.3
Absolute scope 2 (tCO_2e)	MSCI/modelled	106,034	132,685	277,439	41,080	386,210
% MV coverage		97.9	96.1	60.1	19.1	97.3
Government scope 1 & 2 GHG (tCO_2e)	MSCI/modelled	3,899,296	2,526,634	154,379,551	311,191,912	82,306,412
% MV coverage		0.7	0.4	46.5	79.9	14.4
Absolute scope 1 & 2 (tCO_2e)	**MSCI/modelled (calculated)**	**4,028,811**	**2,743,982**	**154,938,753**	**311,265,679**	**83,217,511**
% MV coverage	*	**98.6**	**96.6**	**106.6**	**99.0**	**111.7**
Absolute scope 3 (tCO_2e) reported	MSCI/modelled	5,606,270	6,014,629	25,891,677	1,585,569	18,940,773
% MV coverage		97.5	89.0	52.4	11.5	82.0
Absolute scope 3 (tCO_2e) estimated	MSCI	19,525,245	18,896,674	33,847,920	3,067,894	28,827,153
% MV coverage		97.9	94.9	51.2	18.1	87.9
Absolute scope 1, 2 & 3 (including government 1&2)	MSCI (calculated)	23,554,056	21,640,656	188,786,673	314,333,573	112,044,665

Source: QIC, Aladdin, MSCI, QIC Model (proprietary) or Other Source (Company reports, Government portals) at 28 June 2024.
* Note: 1.4% of Cash Fund NAV, -2.5% of CEF NAV, -12.4% of STIF NAV and -10.1% of AFI NAV are in Repo & Derivative Securities, which have been excluded from this report.

WACI history

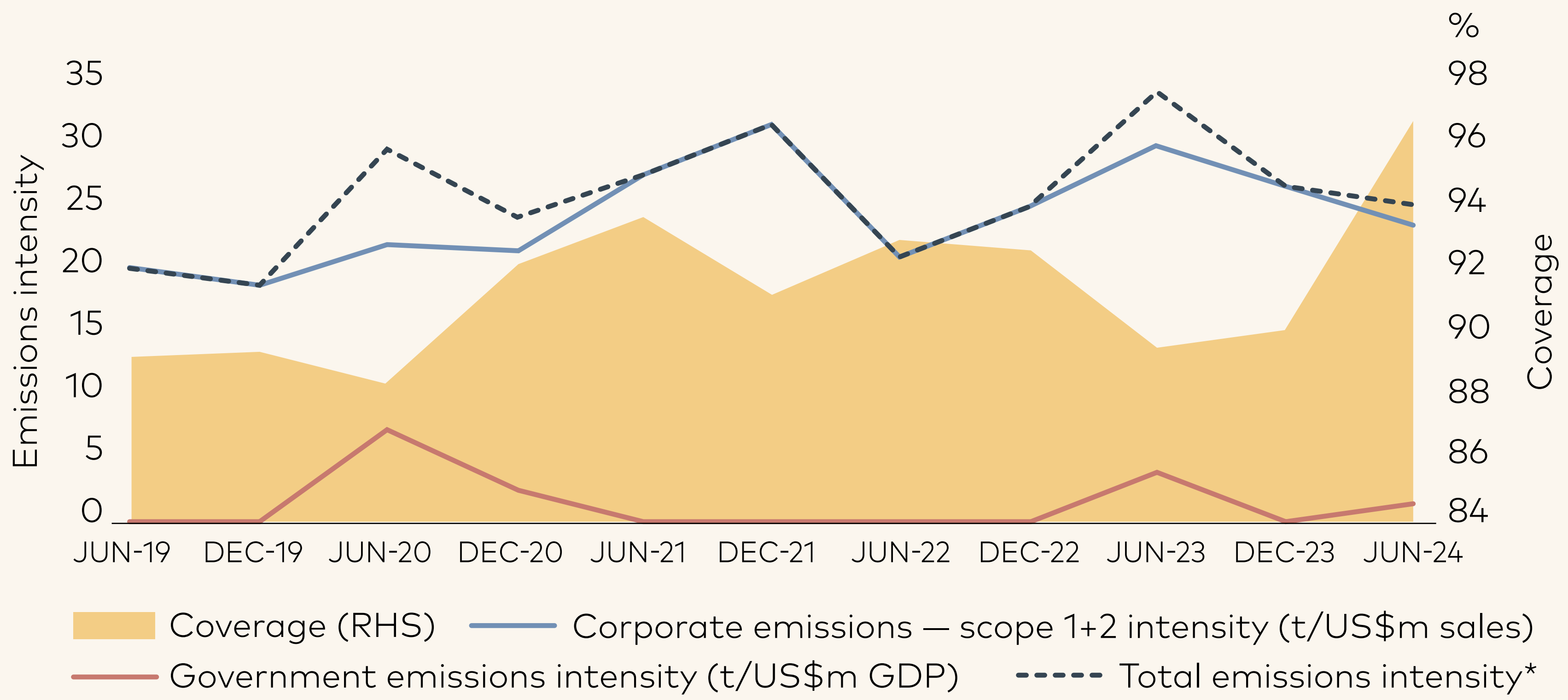
The following charts show WACI histories over the last 5 years for LMG's pooled fixed income products. The charts show emissions changing over time, with security maturities along with buys and sells impacting portfolio WACIs.

Figure 3: Cash Fund emissions intensity 5-year history



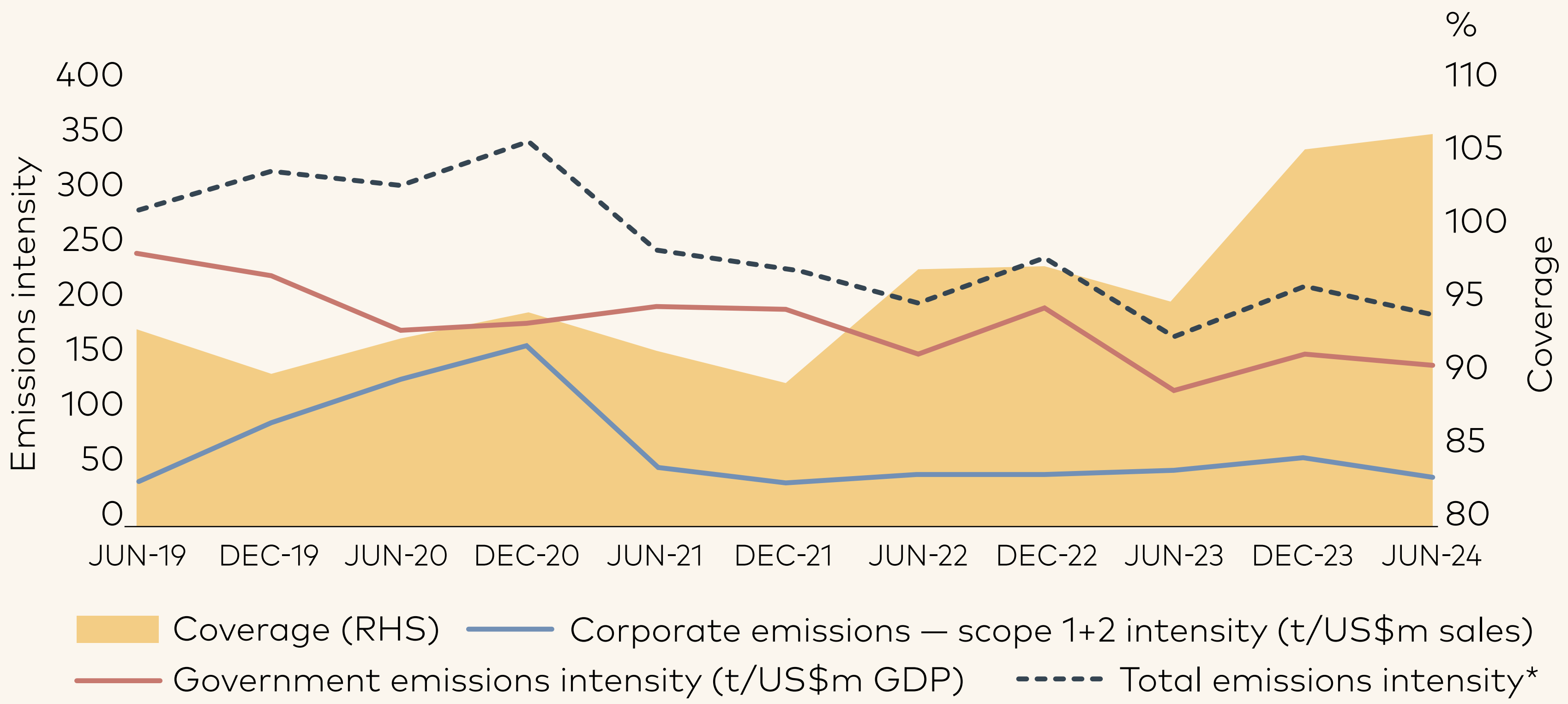
* Total Emissions Intensity includes both corporate (t/US$m sales) and government (t/US$m GDP) data. Repo and derivative transactions have been excluded.

Figure 4: CEF emissions intensity 5-year history



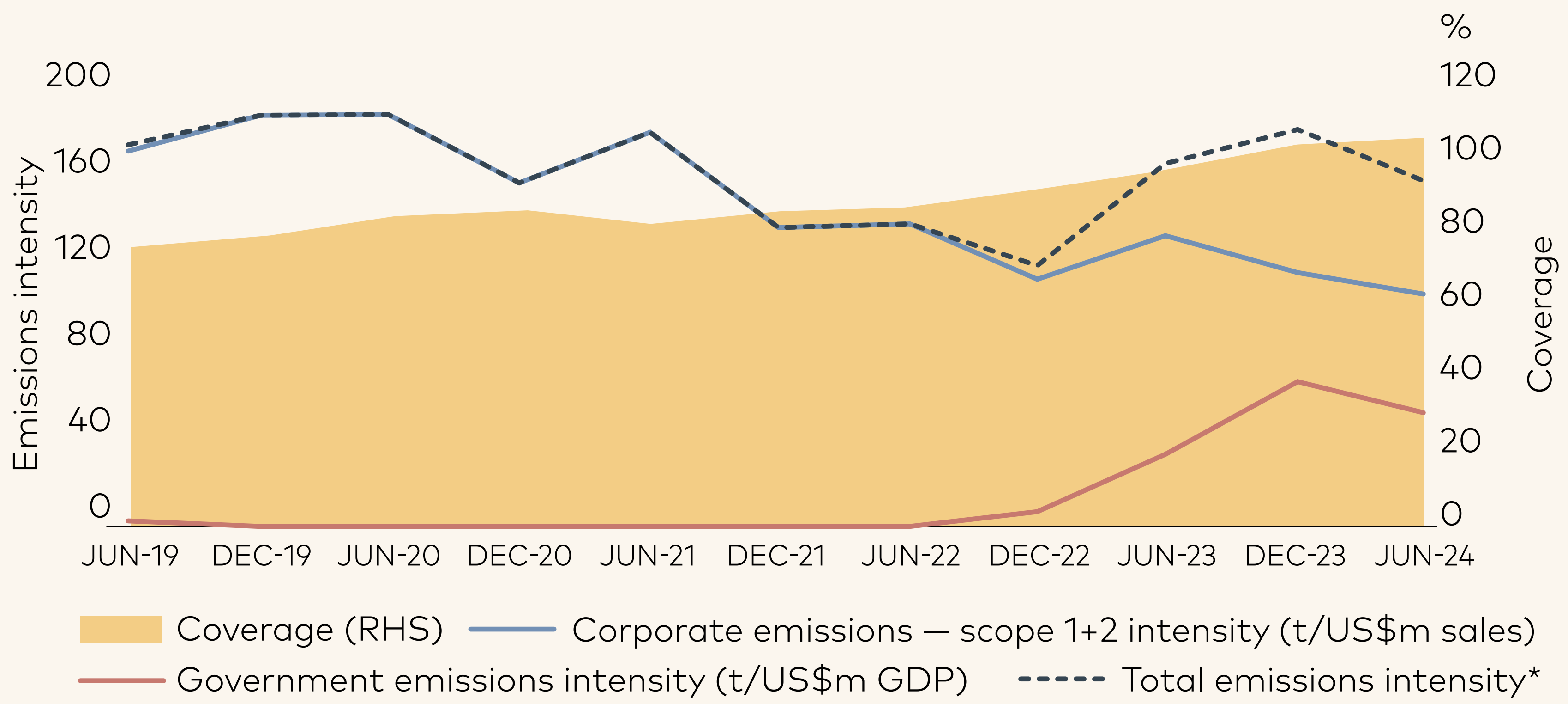
*Total Emissions Intensity includes both corporate (t/US$m sales) and government (t/US$m GDP) data. Asset-backed securities, repo and derivative transactions have been excluded.

Figure 5: AFI emissions intensity 5-year history



*Total Emissions Intensity includes both corporate (t/US$m sales) and government (t/US$m GDP) data. Asset-backed securities, repo and derivative transactions have been excluded.

Figure 6: STIF emissions intensity 5-year history



*Total Emissions Intensity includes both corporate (t/US$m sales) and government (t/US$m GDP) data. Asset-backed securities, repo and derivative transactions have been excluded.

Source: QIC, MSCI, Aladdin, NGER, Issuers at 28 June 2024.

MSCI portfolio temperature alignment

MSCI's Implied Temperature Rise (ITR) provides a forward-looking portfolio level metric in degrees celsius that indicates how aligned companies in a portfolio are with the ambitions of the Paris Agreement. The Paris Agreement aims to keep a global temperature rise this century to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature rise to 1.5°C.

Limitations of ITR include the following:

- reliance on assumptions for future admissions reductions and climate policies
- accurate ITR calculations require comprehensive emissions data, which is often lacking and not timely, especially for scope 3
- different data vendors and organisations have differing methodologies to calculate ITR, leading to inconsistencies and diverging results for companies from the various providers
- may not account for sector-specific challenges and opportunities
- the creditability of a company's emission reduction targets can vary, and ITR metrics may not fully account for the likelihood of these targets not being met
- may not capture shorter term risk and opportunities given projections are to 2100.

LMG's thoughts

It is our view that it is pleasing that, of the data available, very few of the corporate holdings are strongly misaligned, and in most cases the majority are ≤1.5° or >1.5 to 2.0°C aligned. At this early stage, we expect misalignment, but we also expect this to improve further, supporting portfolio decarbonisation ambitions.

Table 6: Cash Fund temperature alignment — corporate holdings

Temperature alignment	Implied temperature rise categories	Temperature range	% of companies in category
2.1°C	1.5°C Aligned	≤ 1.5°C	11.1%
	2.0°C Aligned	> 1.5–2.0°C	27.8%
	Misaligned	> 2.0–3.2°C	38.9%
	Strongly misaligned	> 3.2°C	11.1%
	Total % Cash Fund market value covered		**88.9%**

Data: MSCI ESG Manager, 28 June 2024.

Table 7: CEF temperature alignment — corporate holdings

Temperature alignment	Implied temperature rise categories	Temperature range	% of companies in category
2.3°C	1.5°C Aligned	≤ 1.5°C	8.7%
	2.0°C Aligned	> 1.5–2.0°C	21.7%
	Misaligned	> 2.0–3.2°C	24.6%
	Strongly misaligned	> 3.2°C	2.9%
	Total % CEF portfolio market value covered		**57.9%**

Data: MSCI ESG Manager, 28 June 2024.

QIC

Table 8: AFI vs AusBond composite 0+ benchmark temperature alignment — corporate holdings

Temperature alignment		Implied temperature rise categories	Temperature range	% of companies in category
AFI: 2.0°C	AFI BM: 2.4°C	1.5°C Aligned	≤ 1.5°C	14.3%
		2.0°C Aligned	> 1.5–2.0°C	18.2%
		Misaligned	> 2.0–3.2°C	20.8%
		Strongly misaligned	> 3.2°C	5.2%
		Total % AFI portfolio market value covered		**58.5%**

Data: MSCI ESG Manager, 28 June 2024.

Table 9: STIF temperature alignment — corporate holdings

Temperature alignment	Implied temperature rise categories	Temperature range	% of companies in category
2.3°C	1.5°C Aligned	≤ 1.5°C	17.2%
	2.0°C Aligned	> 1.5–2.0°C	18.3%
	Misaligned	> 2.0–3.2°C	35.5%
	Strongly misaligned	> 3.2°C	7.5%
	Total % STIF portfolio market value covered		**78.5%**

Data: MSCI ESG Manager, 28 June 2024.

Measuring emissions of derivatives

In early 2024, the Institutional Investor Group on Climate Change (IIGCC) released a "Derivatives and Hedge Funds Guidance" extending the Net Zero Investment Framework guidance to these securities and managers, to encourage real economy emissions reduction and to assist investors with whole of portfolio decarbonisation targets.

The guidance is designed to cover equity and credit derivatives along with ETFs and to be applied to futures, forwards, and swaps using notional values and options on a delta-adjusted basis. Previously some market participants debated whether the relevant emissions of a derivative would be the emissions of the trading counterparty (bank or central clearing house). However, the guidance recommends reporting financed emissions as if the investor owned the underlying physical security and it also deals with long and short positions, recommending they be separately reported and not netted or aggregated. The guidance suggests the use of EVIC as a denominator, though we have already outlined challenges with that measure in previous reports. It also outlines other influences investors can have such as engagement and policy advocacy.

The guidance acknowledges the limitations around data availability and the impact of leverage. This is something we concur with. Third-party data providers are publishing some emissions data for government bond futures (being the emissions data of the underlying sovereign), but we are not yet seeing reliable data for credit derivatives or equity index derivatives.

For overlays, where derivative trading volumes can be frequent, the availability and usefulness of data (even on an average basis) is challenging and the guidance notes the negligible real-world impact of high turnover strategies (suggesting they could be excluded, though without defining 'high turnover'), but we acknowledge the guidance provides a principles-based starting point for those investors with low turnover derivatives investments or those using derivatives in lieu of physical securities.

5. NZAM net zero target

Consistent with QIC's net zero commitment, LMG has set net zero carbon emissions targets (scope 1 and 2) across its pooled products by 2050, with interim targets set for 2030 to support progress towards these commitments.[5] These targets have been set for:

- QIC Cash Fund
- QIC Cash Enhanced Fund
- QIC Australian Fixed Interest Fund
- QIC Short Term Income Fund.

Our net zero targets apply to physical holdings across corporate and sovereign issuers, including cash, but do not include securitisation bonds.

We have undertaken work to reduce data gaps[6] and ensure the coverage of our targets is as broad as possible.

Over time, we will look to extend our targets to include scope 3 emissions.

As an NZAM signatory, we are required to invest in climate solutions as part of our decarbonisation pathway. We have a track record of investing in green bonds and sustainability bonds (refer to Labelled Bonds). As we embark on our pathway to net zero, we will continue to monitor this space and invest in these products as appropriate.

Target setting approach

QIC's net zero targets for the QIC Cash Fund, QIC Cash Enhanced Fund, QIC Australian Fixed Interest Fund and QIC Short Term Income Fund have been reviewed by the QIC Board and provided for endorsement as part of our participation in the NZAM initiative, to which QIC is a signatory.

5 QIC's net zero carbon emissions targets have been set for scope 1 and 2 emissions only and are approved by the QIC Board. These targets apply to the QIC Cash Fund, QIC Cash Enhanced Fund, QIC Australian Fixed Interest Fund and QIC Short Term Income Fund, but do not apply to securitisation bonds. Targets are based on emissions intensity, measured using GDP for government bonds, or revenue for corporate bonds. QIC invests in corporate and government bonds. Where these bonds are included in QIC's net zero carbon emissions targets, QIC relies on bond issuers to adopt targets they reasonably believe they can meet and to take the necessary steps to achieve their targets. While QIC engages with these bond issuers to monitor their progress, QIC cannot guarantee that these issuers will be successful in reducing their carbon emissions.

6 Third party ESG data providers do not have data for every bond issuer, though we are often able to source the data elsewhere.

Interim targets have been set for 2030 to support progress towards this commitment. These interim targets are aligned with NZAM requirements.

Emissions measures for these targets are based on emissions intensity using GDP/GSP (for government bonds) or revenue (for corporate bonds).

We have undertaken modelling and analysis of our proposed decarbonisation pathways to seek to ensure that our portfolios remain robust while enabling us to meet these net zero targets.

As a bond investor, achieving our net zero commitments is directly tied to the achievements of the companies and governments that we are invested in. We are reliant on issuers setting targets and remaining on track, so a key factor in meeting our net zero targets is a continued program of engagement with these issuers.

During FY24, the IIGCC broadened its Net Zero Investment Framework 2.0 to encompass sovereign bonds. Initiatives like NZAM now have over 325 signatories managing US$57.5 trillion in assets. However, as of July 2024, our work showed only 24 NZAM signatories had set net zero targets for sovereign bonds, indicating that the integration and alignment of net zero practices for sovereign bond portfolios are still in the early stages and places us amongst the first movers.

We have decided to include sovereign bonds in our target for several reasons:

- The Bloomberg AusBond Composite 0+ year Benchmark has a large component of government and semi-government bonds so we were concerned about whether a target excluding these securities would be meaningful:
  - Australian Commonwealth Government Bonds were 49.5% of the weight of the Benchmark at 28 June 2024
  - State Government Bonds were 30.4% of the weight of the Benchmark at 20 June 2024
  - While this means there is an element of double counting of geographical emissions, the same argument can apply when including scope 1, 2 and 3 emissions
- We have been calculating sovereign emissions since 2018 so are experienced in this space
- We are involved in global sovereign ESG committees with other sovereign investors considered to be at the forefront of this space so believe we are aware of advanced practices.

Net zero alignment

Under the IIGCC's Net Zero Investment Framework 2.0, assets are assessed on their alignment with a net zero pathway.

Five categories of alignment are used, being:

- **Achieving net zero** — assets meet all relevant criteria and have an emissions performance at net zero which can be expected to continue
- **Aligned to a net zero pathway** — assets which have science-based targets, a decarbonisation plan, current emissions at least equal to a relevant net zero pathway
- **Aligning to a net zero pathway** — assets with an emissions performance not fully equal to a net zero pathway, however the asset has science-based targets and a decarbonisation plan
- **Committed to aligning** — assets with long term decarbonisation goal consistent with achieving global net zero by 2050
- **Not aligning** — assets without a commitment to decarbonise in a manner consistent with achieving global net zero.

Using MSCI data, we provide mandate assessments of NZIF alignment against benchmark as at 30 June 2024. Government assessments are not currently available, therefore any government-related bonds fall into the 'not covered' category.

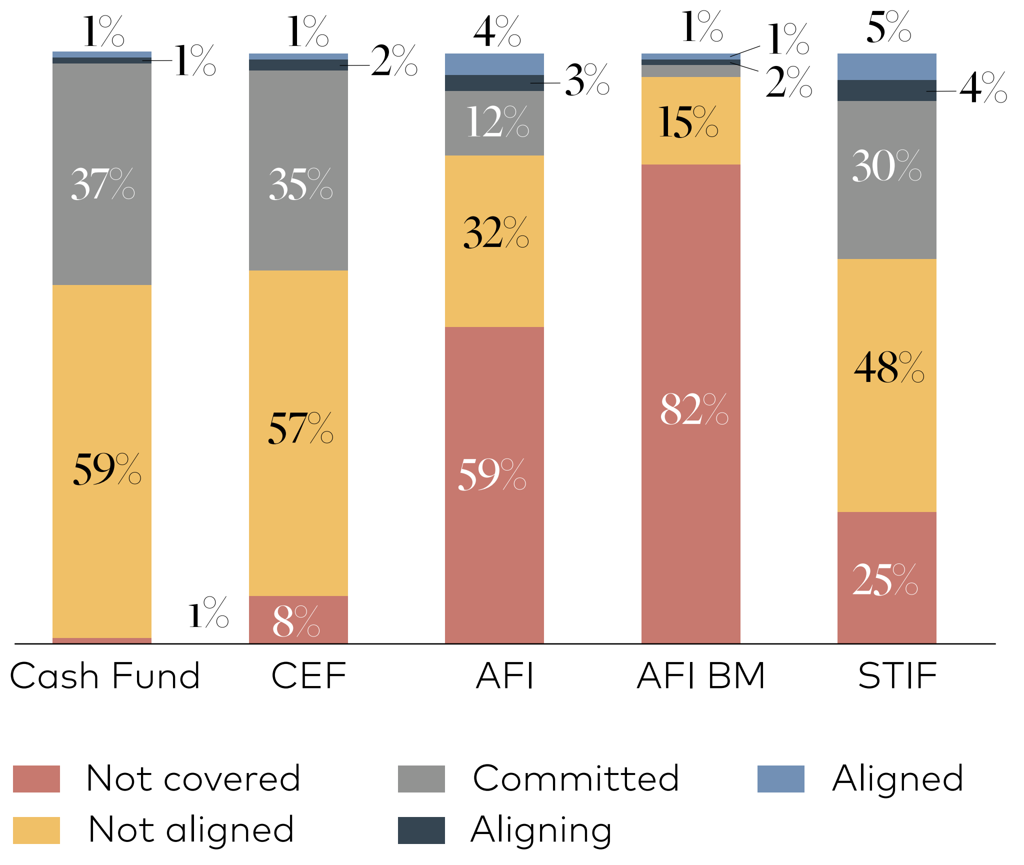
MSCI does not cover all the securities in the pooled funds, and we are aware of some targets that are not yet captured or updated by the data provider.

As part of our NZAM commitment and QIC KPIs for FY25 we will be mapping NZIF alignment of portfolio holdings and conducting our own assessments.

To date we have been using MSCI and the Climate Action 100+ net zero company benchmark to assess alignment. Where a company is not listed, the framework is still useful in informing our own analysis.

From our work so far, the main area causing companies to be 'not aligned' is capital allocation, with many companies only partially meeting the criteria so far. We expect mandatory climate reporting will help companies to improve measurement and reporting of emissions and also identify measures to reduce emissions.

Figure 7: NZIF maturity scale alignment by fund



Source: QIC, MSCI at 30 June 2024.

Note: 1.4% of Cash Fund NAV, -2.5% of CEF NAV, -12.4% of STIF NAV and -10.1% of AFI NAV are in Repo & Derivative Securities, which have been excluded from this report.

QIC

6. Screening

Nature screening

The Taskforce on Nature-related Financial Disclosures (TNFDs) final Beta Framework v0.4 was released in March 2023. For FY24 we have been predominantly assessing the risk of negatively impacting nature and biodiversity by providing debt financing to companies that MSCI flags as:

- red or orange for environmental controversies
- operating in geographies of high water risk
- having business operations with high water risk
- geographically exposed to fragile ecosystems
- operations with high potential disturbances to land and marine areas
- operations in segments with high toxic emissions and waste intensity
- companies with deforestation links.

MSCI's red and orange flags indicate "one or more recent very severe controversies" and "one or more recent severe structural controversies that are ongoing" respectively. MSCI has also started reporting on existence of corporate policies regarding biodiversity and environmental impact. The table below details issuers that are covered by MSCI and are flagged for some of the above risks. Note MSCI does not cover 100% of portfolio holdings.

No red flags — LMG's pooled fixed income funds do not have exposure to companies that MSCI has assigned red flags for nature or biodiversity risk.

Some of the following companies are identified by MSCI because they have operations in geographically sensitive regions. For these companies, the screening merely identifies potential risk, it does not necessarily identify an actual or realised risk. We can use this screening to determine whether companies have policies to address the risks and to inform engagement activity.

Table 10: MSCI nature and biodiversity screening

MSCI area	Issuer	Reason	Cash Fund	CEF	AFI	STIF
Environment controversy flag	Volkswagen	Orange controversy flag retained around emissions defeat device			✓	✓
	Mercedes-Benz	Orange controversy flag retained in relation to diesel emissions fraud	✓	✓	✓	
Greater than 20% of operations in high water stress geography	Intesa Sanpaolo Spa	77.9% of operations in high water stress regions		✓		
	Banco Santander	46.0% of operations in high water stress regions		✓	✓	✓
	EIB	33.2% of operations in high water stress regions	✓			
	Iberdrola	27.7% of operations in high water stress regions				✓
	IBRD	24.5% of operations in high water stress regions			✓	
Operations with high water intensity	Incitec Pivot	100% of assets devoted to highly water-intensive operations			✓	✓
	FMG Resources	100% of assets devoted to highly water-intensive operations				✓
	Veolia Environnement SA	98.5% of assets devoted to highly water-intensive operations				✓
	Contact Energy	58.2% of assets devoted to highly water-intensive operations			✓	✓
	Mercury NZ	57.3% of assets devoted to highly water-intensive operations			✓	✓
	Australian Gas Networks	21.0% of assets devoted to highly water-intensive operations		✓		
	APA Infrastructure	20.3% of assets devoted to highly water-intensive operations				✓
High geographic exposure to fragile ecosystems	Auckland Airport	Estimated 100% of operations located in geographies with highly fragile ecosystems				✓
	Chorus Ltd	Estimated 100% of operations located in geographies with highly fragile ecosystems			✓	✓
	Contact Energy	Estimated 100% of operations located in geographies with highly fragile ecosystems			✓	✓
	Mercury NZ	Estimated 100% of operations located in geographies with highly fragile ecosystems			✓	✓
	Transpower NZ	Estimated 100% of operations located in geographies with highly fragile ecosystems				✓
	Verizon Communications	Estimated 100% of operations located in geographies with highly fragile ecosystems			✓	✓
	MetLife	Estimated 100% of operations located in geographies with highly fragile ecosystems				✓
	T-Mobile USA Inc	Estimated 100% of operations located in geographies with highly fragile ecosystems				✓
	Wells Fargo & Company	Estimated 100% of operations located in geographies with highly fragile ecosystems				✓
	AT&T Inc	Estimated 98.9% of operations located in geographies with highly fragile ecosystems			✓	
	Bank of America	Estimated 87.0% of operations located in geographies with highly fragile ecosystems		✓	✓	✓

QIC

Table 10: MSCI nature and biodiversity screening (continued)

MSCI area	Issuer	Reason	Cash Fund	CEF	AFI	STIF
High geographic exposure to fragile ecosystems (continued)	General Motors Financial	Estimated 76.1% of operations located in geographies with highly fragile ecosystems			✓	✓
	Citibank N.A.	Estimated 61.4% of operations located in geographies with highly fragile ecosystems		✓		
	John Deere Financial	Estimated 55.3% of operations located in geographies with highly fragile ecosystems		✓	✓	✓
	Paccar Financial	Estimated 53.6% of operations located in geographies with highly fragile ecosystems	✓	✓		
	Mercedes-Benz	Estimated 40.0% of operations located in geographies with highly fragile ecosystems	✓	✓	✓	
	Iberdrola	Estimated 36.1% of operations located in geographies with highly fragile ecosystems				✓
	UBS	Estimated 33.9% of operations located in geographies with highly fragile ecosystems		✓		✓
	Royal Bank of Canada	Estimated 31.9% of operations located in geographies with highly fragile ecosystems		✓	✓	✓
	Barclays Plc	Estimated 31.2% of operations located in geographies with highly fragile ecosystems			✓	✓
	Incitec Pivot	Estimated 29.3% of operations located in geographies with highly fragile ecosystems			✓	✓
	ANZ	Estimated 21.5% of operations located in geographies with highly fragile ecosystems	✓	✓	✓	✓

MSCI area	Issuer	Reason	Cash Fund	CEF	AFI	STIF
High geographic exposure to fragile ecosystems (continued)	Deutsche Bank AG	Estimated 20.6% of operations located in geographies with highly fragile ecosystems				✓
High potential disturbances to land and marine areas	FMG Resources	Estimated 97.1% of operations with high disturbances to land and marine areas				✓
	APA Infrastructure	Estimated 67.9% of operations with high disturbances to land and marine areas				✓
	SGSP (Australia)	Estimated 20.7% of operations with high disturbances to land and marine areas				✓
Operations in segments with high toxic emissions and waste intensity	Transurban Qld	Estimated 100% of operations with high toxic emissions and waste intensity			✓	✓
	FMG Resources	Estimated 100% of operations with high toxic emissions and waste intensity				✓
	Incitec Pivot	Estimated 100% of operations with high toxic emissions and waste intensity			✓	✓
	Toyota Finance	Estimated 92.5% of operations with high toxic emissions and waste intensity	✓	✓		
	Mercedes-Benz	Estimated 83.2% of operations with high toxic emissions and waste intensity	✓	✓	✓	
	Volkswagen Financial	Estimated 69.4% of operations with high toxic emissions and waste intensity			✓	✓

Table 10: MSCI nature and biodiversity screening (continued)

MSCI area	Issuer	Reason	Cash Fund	CEF	AFI	STIF
Operations in segments with high toxic emissions and waste intensity (continued)	APA Infrastructure	Estimated 67.9% of operations with high toxic emissions and waste intensity				✓
	General Motors Financial	Estimated 53.1% of operations with high toxic emissions and waste intensity			✓	✓
	Veolia Environnement SA	Estimated 34.9% of operations with high toxic emissions and waste intensity				✓
Deforestation links	Coles Group Ltd	Operates in a high-risk industry for deforestation, potential indirect contribution to deforestation			✓	✓
	Wesfarmers Limited	Operates in a high-risk industry for deforestation, potential direct and indirect contribution to deforestation				✓
	Woolworths Group	Operates in a high-risk industry for deforestation, potential direct and indirect contribution to deforestation			✓	✓
	APA Infrastructure	Operates in a high-risk industry for deforestation, potential direct contribution to deforestation				✓
	AusNet Services	Operates in a high-risk industry for deforestation, potential direct contribution to deforestation				✓

Source: QIC, MSCI, data at 30 June 2024.

Social screening

We monitor for modern slavery and human rights risks via:

- weekly screening of changes to MSCI labour flags, scores, controversies and compliance with ILO principles and standards for any company in the MSCI ESG Manager database
- fortnightly RepRisk reporting with a screen for Modern Slavery (we update a list of issuers and counterparties biannually across the portfolios for RepRisk screening)
- raising modern slavery and human rights if warranted as part of our ESG engagement program.

LMG modern slavery register

LMG maintains a register of the incidences of modern slavery allegations identified in our fortnightly RepRisk screen.

The register contains our assessment of the severity of the incident and recommended follow up action. In many instances, the allegations appear in news articles repeating already identified and historical allegations. Our assessment of the level of severity level will include the following considerations:

- evidence or likelihood of material regulatory or legal fines, penalties or actions in response to the allegation
- whether the entity is directly responsible for the allegation
- if the allegation is systemic to the industry or region
- whether it is an ongoing historical allegation of a single issue or if the entity is a repeat offender
- the entity's response to the allegation
- whether the entity is subject to legal or regulatory investigation
- the ability of a bondholder to engage with and influence the entity subject to the allegation.

A summary of our analysis of incidences identified during FY24 is in the table opposite.

Regarding the allegations we have classified as severe, the companies are within LMG's coverage universe but are not held in LMG's unit trusts and our assessment of the allegations is:

- two of the severe incidences relate to historical child labour allegations at a company that remains on LMG's dynamic exclusion list (because of the allegation)
- one incidence relates to an ongoing allegation of child labour where we are satisfied with the company's response to the allegations
- the remaining incidence relates to a new allegation of child labour at a US factory of a supplier where we are satisfied with the company's prompt response and implementation of preventative measures.

Table 11: RepRisk modern slavery screen summary FY24

Severity	Number of allegations/incidences	Cash Fund holdings	CEF holdings	AFI holdings	STIF holdings
Minor	26	2	9	10	14
Moderate	13	2	5	4	6
Severe	4	0	0	0	0
Total	**43**	**4**	**14**	**14**	**20**

Source: QIC record-keeping, RepRisk at 28 June 2024.

MSCI labour and human rights screen

MSCI's red and orange flags indicate "one or more recent very severe controversies" and "one or more recent severe structural controversies that are ongoing", respectively.

There were **no red or orange flags for controversies** related to child labour on portfolio holdings as at 30 June 2024.

There were also **no longer any red flags for labour rights controversies** after MSCI changed the red flag on Volkswagen to an orange flag in December 2023. The improvement reflected the completion of an external ESG audit of SAIC-Volkswagen in China. The audit found no violations of International Labour Organisation Conventions or any indications of any use of forced labour or any forced labourers among the employees at the plant of the audited entity. The Global Compact Status was also raised to "Watch List" from "Fail."

The table opposite provides details of issuers with orange flags for labour rights controversies. Please be aware MSCI does not cover 100% of portfolio holdings.

MSCI diversity screen

We also screen the corporate bonds in the portfolios for independence and gender diversity of the Board.

The table on the following page details bond issuers where, in our view, board diversity could improve. Please be aware that MSCI does not cover 100% of portfolio holdings.

Table 12: MSCI labour rights screen

MSCI area	Issuer	Global compact status	Reason	Cash Fund	CEF	AFI	STIF
Orange flag: Labour rights controversy	**Banco Santander**	Pass	Ongoing severe controversy related to a BRL 275 million penalty for imposing excessive goals and workloads on employees		✓	✓	✓
	Coles Group Treasury	Pass	Ongoing severe controversy related to the alleged underpayment of several thousand employees			✓	✓
	Commonwealth Bank of Australia	Pass	Ongoing severe controversy related to alleged underpayment of employee's superannuation, wages and other entitlements	✓	✓	✓	✓
	National Australia Bank	Pass	Ongoing severe controversy related to an internal investigation and union criticism against alleged underpayment of employees	✓	✓	✓	✓
	Royal Bank of Canada	Pass	Ongoing severe controversy related to a certified class action alleging unpaid vacation and holiday pay affecting commissioned-based advisors		✓	✓	✓
	Volkswagen	Watch List	Ongoing very severe controversy for allegations of forced labour related to employing ethnic minorities through coercive state-sponsored labour-transfer programs at SAIC Volkswagen (Xinjiang); no evidence of forced labour identified by external audit			✓	✓
	Wells Fargo	Pass	Ongoing certified class action lawsuit against Wells Fargo over alleged unpaid minimum wage per hour worked and overtime wages for mortgage consultants				✓
	Wesfarmers	Pass	Partially concluded severe controversy related to a settlement with Fair Work Ombudsman over underpayment of thousands of current and former employees between 2010 and 2020				✓
	Woolworths	Pass	Ongoing severe controversy related to an investigation and lawsuit over alleged underpayment of wages to at least 5,700 supermarket workers			✓	✓
Orange flag: Human rights controversy	**FMG Resources**	Watch List	Ongoing severe controversy related to a dispute with the Yindjibarndi community over royalty payments and compensation claims over alleged adverse cultural and economic impacts				✓
	T-Mobile USA Inc	Watch List	Ongoing severe controversy related to a lawsuit over alleged negligence in maintaining and operating equipment that sparked a wildfire known as the Silverado fire in October 2020				✓

Source: QIC, MSCI, data at 30 June 2024.

QIC

Table 13: MSCI diversity screen

MSCI area	Issuer	Metric	Cash Fund	CEF	AFI	STIF
Board independence (less than 50% independent directors)	Australian Gas Networks	33.3% independent directors		✓		
	SGSP (Australia) Assets	37.5% independent directors				✓
	Toyota Finance	40.0% independent directors	✓	✓		
	Credit Agricole	45.0% independent directors		✓	✓	✓
Female directors (less than 30% female directors)	Toyota Finance	10.0% female directors	✓	✓		
	Heathrow Funding	12.5% female directors			✓	✓
	Incitec Pivot	16.7% female directors			✓	✓
	Brisbane Airport	18.2% female directors			✓	✓
	T-Mobile USA Inc	21.4% female directors				✓
	ETSA Utilities	22.2% female directors		✓	✓	✓
	Australia Pacific Airports Melbourne	25.0% female directors				✓
	Sydney Airport	25.0% female directors				✓
	Paccar Financial	25.0% female directors	✓	✓		
Female directors (less than 30% female directors) (continued)	Victoria Power Networks	25.0% female directors		✓		✓
	MUFG Bank	26.7% female directors	✓	✓		
	AT&T Inc	27.3% female directors			✓	
	Australian Gas Networks	27.8% female directors		✓		
	APA Infrastructure	28.6% female directors				✓
	Mirvac Group	28.6% female directors				✓

Source: QIC, MSCI, data at 30 June 2024.

7. Labelled bonds

Holdings

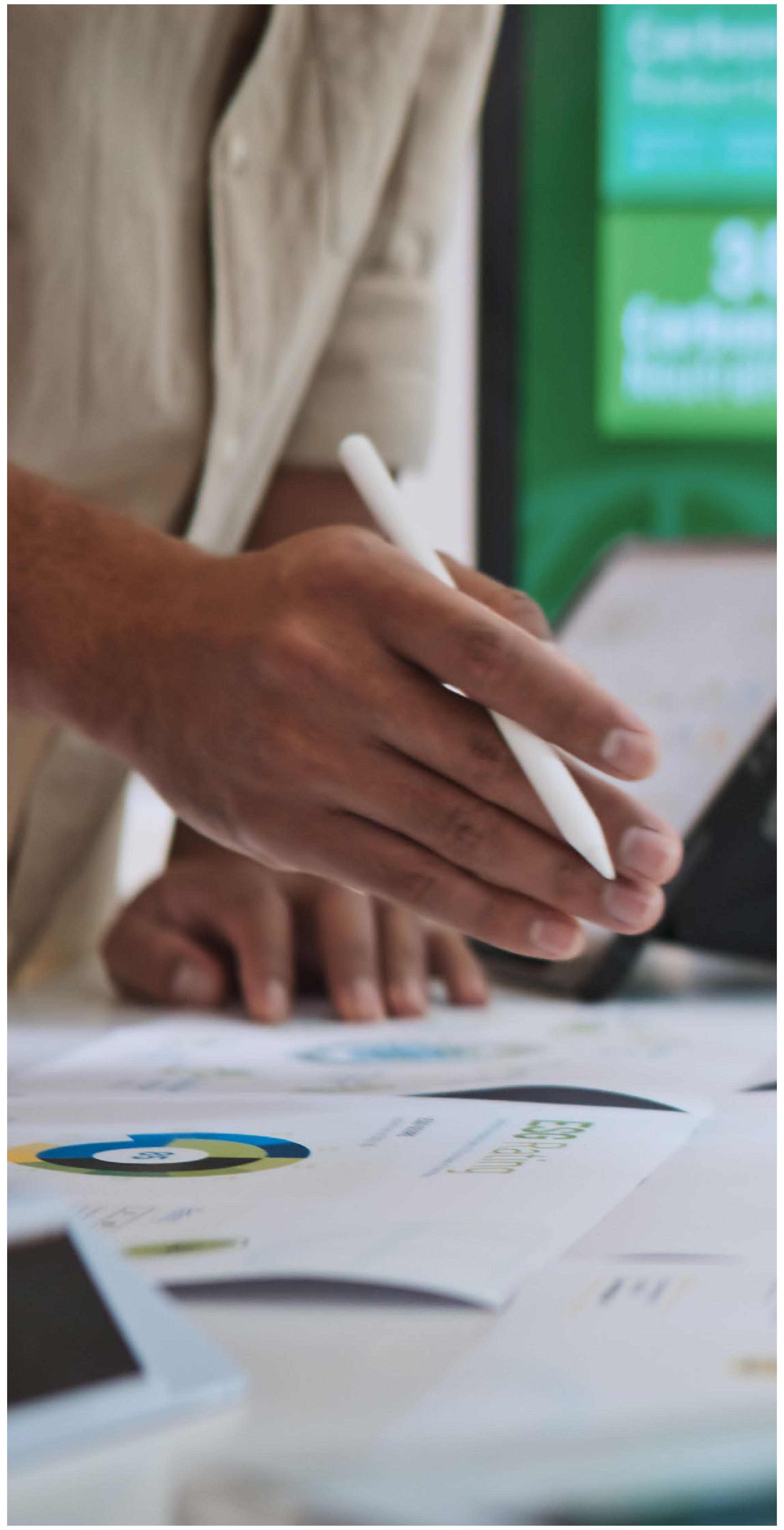
Our LMG Labelled Bond Investment Standard v2.0 September 2023 lists the minimum structural requirements we look for in green, social, sustainable and sustainability-linked bonds, including a framework aligned to either the Climate Bond Initiative or relevant ICMA principles. We also require annual ongoing reporting on use of proceeds or progress towards sustainability targets, with a preference for audited data. While we no longer require a Second Party Opinion, it is still preferred.

The table below shows the labelled bonds held in the pooled fixed income mandates at 30 June 2024. We may have held other labelled bonds during the financial year and there are holdings in segregated mandates too, so the tables are not a complete list of exposures across LMG.

Table 14: Green, Social, Sustainable, and Sustainability-Linked Bond holdings (% NAV)

Bond label	Cash Fund	CEF	AFI	AFI BM	STIF
Green	–	0.1%	9.4%	3.2%	2.9%
Social	–	–	–	0.8%	
Sustainable	–	–	4.1%	3.4%	1.1%
Sustainability-Linked Bond	–	–	–	0.2%	1.5%
Total	–	**0.1%**	**13.5%**	**7.5%**	**5.6%**

Source: QIC, Aladdin at 30 June 2024.



FY24 turnover

Turnover (buys, sells and maturities) between 1 July 2023 and 30 June 2024 was as follows:

Table 15: CEF labelled bond turnover

CEF	Trade Face (AUD)
Buys	**6,810,000**
Green	6,810,000
Maturities	**-16,810,000**
Green	-16,810,000

Source: QIC, Aladdin at 30 June 2024.

Table 16: AFI labelled bond turnover

AFI	Trade Face (AUD)
Buys	**14,552,700**
Green	9,260,000
Sustainable	5.292,700
Sells	**-10,580,000**
Green	-8,150,000
Sustainable	-2,430,000

Source: QIC, Aladdin at 30 June 2024.

Table 17: STIF labelled bond turnover

STIF	Trade Face (AUD)
Buys	**46,030,000**
Green	41,730,000
Sustainable	4,300,000
Sells	**-31,137,400**
Green	-29,637,400
Sustainability-linked	-1,500,000

Source: QIC, Aladdin at 30 June 2024.

Table 18: LMG labelled bond turnover

The following table includes turnover of labelled bonds across pooled and segregated mandates:

LMG	Trade Face (AUD)
Buys	**315,556,728**
Green	201,966,917
Social	19,000,000
Sustainable	63,895,561
Sustainability-linked	30,694,250
Sells	**-136,006,132**
Green	-128,768,570
Sustainable	-5,037,562
Sustainability-linked	-2,200,000
Maturities	**-133,600,000**
Green	-92,896,000
Sustainable	-40,704,000

Source: QIC, Aladdin at 30 June 2024.

SPOTLIGHT

Inaugural Australian Sovereign Green Bond

In June 2024 the Australian Government, through its debt management office, the Australian Office of Financial Management (AOFM), issued its inaugural Treasury Green Bond marking a significant milestone in the country's sustainable finance journey. The Bond will finance climate change mitigation and adaptation, and projects with positive environmental outcomes such as clean transport, green buildings, biodiversity conservation and the circular economy.

The 10-year maturity, $7 billion deal, which attracted over $20 billion of orders, priced with a small 'greenium', is the largest Green Bond issued in Australian dollars so far[7], and established a 'risk free Green Bond curve' for Australia. The AOFM has committed to issuing more volume into this Bond and to future issuance of other maturities. We anticipate this will eventually encourage more corporates to issue Green Bonds, though we expect a lot of companies to concentrate on forthcoming climate reporting regulations first, which in our view will improve data availability and quality, before a return to financing options.

We had several engagements with advisors and the issuer during the structuring of the Green Bond program, providing feedback on investor expectations around structure, framework, eligible assets and projects, and ongoing reporting. While the deal attracted new investors, it was disappointing to see some international investors not participate though we expect the removal of the greenium, with the Bond now trading in line with the benchmark 10-year Commonwealth Government Bond, and significant climate-related regulatory developments in Australia to entice further interest.

In QIC's view, the issuer and their sustainability advisors conducted a thorough and genuinely collaborative structuring process, incorporating learnings from established green bond issuers and listening to investor preferences resulting in a Green Bond program that is both robust and reflective of Green Bond issuance best practice.

7 As at 4 June 2024

Labelled bond proceeds and updates

The following table includes details of assets and targets funded by labelled bonds with links to the issuers' impact reports if they are available yet. Any data points of reported impact are sourced from issuer reporting.

Table 19: Labelled bond impact details

Issuer	ISIN	Alignment	Use of proceeds/KPIs	Reported impact
Green				
Australian Government	AU3TB0000200	ICMA Green Bond Principles	Proceeds must be allocated to projects that align strongly with one of more of the Australian Government's three key Green Goals: • Climate change mitigation • Climate change adaption • Improved environmental outcomes Green goals are in alignment with the ICMA Green Bond categories and contribute to Australia's contribution to meeting the UN Sustainable Development Goals. Relevant ICMA Green Categories are: • Renewable energy • Energy efficiency • Clean transportation • Green buildings • Climate change adaption • Environmentally sustainable management of living natural resources and land use • Biodiversity conservation • Sustainable water and wastewater management • Circular economy • Pollution prevention and control.	Not available yet, issued in June 2024
Contact Energy Limited	AU3CB0303576	CBI ICMA Green Bond Principles	The proceeds of Contact's Framework will be used to finance existing and future renewable generation assets that meet the Green Bond Principles and the Climate Bonds Standard (Green Assets). All of Contact's geothermal assets (excluding Ohaaki power station) qualify to be included as eligible Green Assets.	Not available yet, issued in November 2023

Table 19: Labelled bond impact details (continued)

Issuer	ISIN	Alignment	Use of proceeds/KPIs	Reported impact
CPPIB Capital	AU3CB0299998	ICMA Green Bond Principles	The eligible companies must derive at least 95% of revenue from eligible green categories or for transitioning companies the eligible projects must meet these categories: 1. Renewable Energy (wind, solar, green hydrogen) 2. Green Buildings (LEED Platinum or equivalent; DGNB Platinum, or BREEAM Outstanding) 3. Low Carbon/Clean Transportation (EV, non-motorised, supporting infrastructure, rail electrification) 4. Energy Efficiency (battery storage; technology, products or systems providing significant energy efficiency improvements (>30% IEA and EU Taxonomy); must not be to increase FF efficiency).	Not available yet, issued in June 2023
ETSA Utilities Finance	AU3CB0310100	Green Bond Principles (GBP) 2021 (with June 2022 Appendix I) Climate Bonds Standard v4.1 Electrical Grids and Storage Criteria (CBS).	SA Power Networks will utilise proceeds to finance or refinance new or existing distribution assets which support South Australia's transition to a distributed and decarbonised energy system, and adaptation and resilience projects, such as network bushfire readiness, to maintain and enhance grid resilience and reliability. Relevant ICMA project categories are as follows: • Renewable energy • Energy efficiency • Clean transportation • Climate change adaptation • Environmentally sustainable management of living natural resources and land use • Circular economy adapted products, production technologies and processes.	Not available yet, issued in June 2024
ETSA Utilities Finance	AU3CB0310118	As above	As above	As above
European Investment Bank	AU3CB0296754	ICMA Green Bond Principles	Climate Awareness Bond: Proceeds are only allocated to activities contributing substantially to EU sustainability objectives, in line with evolving EU legislation on sustainable finance. This includes activities related to climate change mitigation such as renewable energy, energy efficiency, electric rail infrastructure and rolling stock, and electric buses, research and development and deployment of low-carbon technologies.	Not available yet, issued February 2023. This bond will be part of the Climate Awareness Bond pool with information available here.
KFW	AU3CB0294270	ICMA Green Bond Principles	Qualifying assets include loans under KFW "Renewable Energies — Standard" programme and "Energy-efficient Construction" programme. Renewable Energies — Standard provides financing for the construction, expansion, modernisation and acquisition of plants that generate electricity or heat from renewable energy sources that comply with the requirements of the German Renewable Energy Sources Act (Erneuerbare-Energien-Gesetz). Project types may include photovoltaic plants or wind turbines. The projects can be implemented in Germany or, provided that German companies, private individuals or joint ventures with significant German participation are involved, also outside of Germany. The Energy Efficient Construction programme promotes the construction of energy-efficient residential buildings and the energy-efficient refurbishment of existing buildings in Germany. The requirement for this is that the buildings consume at least 75% less primary energy than buildings constructed according to the current German Building Energy Act (Gebäudeenergiegesetz, GEG). Single measures to save energy and reduce carbon dioxide emissions, including measures on plant engineering, heat generation plants, heating optimisation as well as technical planning and construction supervision are also eligible for funding under this programme.	Estimated environmental and social impact per €1 million: • Annual GHG emissions reduced/avoided: 195 tCO_2e • Annual final energy savings: 11.1 MWh • Annual renewable electricity generation: 375 MWh • Renewable energy capacity added: 0.22 MWel • No jobs created/preserved (person years): 12 **Impact source:** KFW 2022 Allocation Report

Table 19: Labelled bond impact details (continued)

Issuer	ISIN	Alignment	Use of proceeds/KPIs	Reported impact
Kommunalbanken AS	AU3CB0283596	Nordic Public Sector Issuers Position Paper on Green Bond Impact reporting ICMA Handbook on Green Bond Impact Reporting Final report on EU Green Bond Standard	Loans to Norwegian municipalities for low carbon transport, new green buildings, water and wastewater management, waste management, energy efficiency, renewable energy, sustainable land use and climate change adaptation. Eligible transport projects are strictly fossil-free; energy production is all renewable and buildings that meet their criteria cannot be heated by fossil fuels or oil.	This Green Bond represents 4% of the impact of KBN's green bond project pool, which is on lent to the project areas below. Reported impact statistics (quoted as reduced and avoided GHG (tonnes CO_2e annually)): • Buildings: 1,131 • Renewable energy: 1,212 • Transportation: 11,606 • Waste and circular economy: 84 • Water and wastewater management (n/a) • Land use and area development projects (n/a) • Climate change adaptation (n/a) • KBN reports the projects generate 107,849 MWh of renewable energy annually and avoid 46,684 MWh of energy annually (page 4 2023 Impact Report). **Impact source:** KBN Impact Report 2023
Rentenbank	AU3CB0283190	ICMA Green Bond Principles	100% allocated to the Eligible Green Loan Portfolio: • Production, storage and distribution of wind and solar energy • In accordance with requirements defined in our Rural Energy promotional programme • Must comply with the German Renewable Energy Sources act (EEG). • All projects are in Germany and connected to the electricity grid. • Only onshore wind and solar projects are eligible.	As at 31 December 2023 positive environmental impact is as follows: **Wind** • Total installed capacity: 3,396 MW • Annual renewable energy generation: 7,888 GWh • GHG emissions avoided: 5,978,900 tCO_2e **Solar** • Total installed capacity: 1,755 MW • Annual renewable energy generation: 1,632 GWh • GHG emissions avoided: 1,126,500 tCO_2e **Biogas** • Total installed capacity: 362 MW • Annual renewable energy generation: 1,652 GWh • GHG emissions avoided: 794,700 tCO_2e **Impact source:** Rentenbank Impact Analysis

Table 19: Labelled bond impact details (continued)

Issuer	ISIN	Alignment	Use of proceeds/KPIs	Reported impact
Lendlease Group	AU3CB0278711	ICMA Green Bond Principles ICMA Social Bond Principles ICMA Sustainability Bond Guidelines	Bond proceeds will be used to support the delivery of green buildings and are earmarked to eligible projects within Lendlease's A$110 billion global development pipeline — including 22 major urbanisation projects such as Sydney's Barangaroo, the UK's International Quarter London and Chicago's Southbank. Eligible projects include: • Sustainable water management • Renewable energy and energy efficiency • Green buildings • Clean transportation • Pollution prevention and control • Climate change adaptation.	• Total annual energy savings: 51,388 MWh p.a. represents 28 per cent saving over baseline and is equivalent to the power required to power 4,590 homes. • Total annual CO_2 avoidance: 20,170 tonnes CO_2-eq p.a. represents 23 per cent saving over baseline and is equivalent to taking 4,488 cars off the road. • Total water savings: 284 million litres p.a. represents 46 per cent saving over baseline and is equivalent to the water required to fill 114 Olympic swimming pools. **Impact source:** FY23 Lendlease Impact Report
Mercury NZ Ltd	AU3CB0284677	CBI ICMA Green Bond Principles	Eligible assets include geothermal and wind power generation in New Zealand. The vertically integrated gentailer's generation portfolio is 100% renewable.	• Renewable Generation: 1,614 GWh • Annual GHG Emissions: 30 $ktCO_2e$ • Assessed GHG impact if generation replaced by thermal generation: 606–1,572 $ktCO_2e$ **Impact source:** Mercury NZ FY23 Impact Report
NBN Co Ltd	AU3CB0288397	ICMA Green Bond Principles	Eligible proceeds include energy efficiency and renewable energy associated with the deployment of Australia's broadband network with more efficient technology — copper to fibre network conversion, and purchase of renewable electricity to power the network and infrastructure.	100% of proceeds allocated to Energy Efficiency category. Impact Metrics (FY23): • Energy intensity: 8.25 kWh/TB • Emissions intensity: 5.59 kCO_2e/TB **Impact source:** NBN FY23 Impact Report
NBN Co Ltd	AU3CB0301844	As above	As above	Not available yet
NRMBS_18-1 G	AU3FN0040622	CBI	The green tranche of the A$2 billion RMBS deal comprises A$300 million of NAB-originated mortgages for Australian residential properties (apartments and houses) that meet the Climate Bonds Standard Criteria for Australian low carbon residential buildings. The green tranche is rated AAA and was 'cornerstoned' by the Clean Energy Finance Corporation. Approved building codes: NSW, Victoria, Tasmania; compliance by location, type and building dates maintained for the term of the bond. CBI criteria leverage building code energy efficiency requirements as a proxy for carbon emissions performance where emissions data is limited or non-existent.	Mortgages for 517 residential properties which meet the Climate Bonds Standard criteria for Australian low carbon residential buildings diversified across NSW, Victoria and Tasmania. Project Aim: Climate Change Mitigation Project Status: Operational Eligible low carbon residential mortgage balance outstanding: A$105,573,380 Annual emissions avoided: 106 tCO_2e **Impact source:** NAB RMBS — Impact Report — 2023

Table 19: Labelled bond impact details (continued)

Issuer	ISIN	Alignment	Use of proceeds/KPIs	Reported impact
New South Wales Treasury Corporation (TCorp)	AU3SG0002348	CBI ICMA Green Bond Principles	TCorp's Sustainability Bond Programme allows for green, social or sustainability investments and is aligned to the UN Sustainable Development Goals, ICMA Green Bond Principles (GBP), Social Bond Principles (SBP), Sustainability Bond Guidelines (SBG) and Climate Bonds Taxonomy. Green Bond Eligible Categories (ICMA): 1. Clean transportation 2. Green buildings 3. Sustainable water and wastewater management 4. Energy efficiency and renewable energy 5. Environmentally sustainable management of living, natural resources and land use, climate change adaption and terrestrial and aquatic biodiversity conservation. Proceeds for this bond have been allocated to the following projects: • Sydney Metro Northwest (Clean transportation) • Newcastle Light Rail (Clean transportation) • Lower South Creek Treatment Programme (Sustainable water and wastewater management).	**Sydney Metro Northwest** • 21.1 million total passenger trips in FY23 • 100% of grid electricity required for operation (84 GWh) is offset by renewable energy through the voluntary surrender of LGCs, avoiding emissions of 63,104 tCO_2e. **Newcastle Light Rail** • 0.9 million total passenger trips in FY23 • 1,415 tCO_2e total emissions. **Lower South Creek Treatment Programme** • 100% (or ~6,842 tonnes of biosolids recovered from wastewater beneficially reused • 42% estimated reduction in GHG emissions during construction and across its 50-year operation. **Impact source:** NSWTC Sustainability Bond Programme
QIC Finance (Shopping Centre Fund)	AU3CB0265700	ICMA Green Bond Principles, CBI	Proceeds of the green bond will be allocated to staged redevelopment of three shopping centres, Eastland, Robina Town Centre and Grand Central. Redevelopments will include: • Energy efficiency programmes • Solar PV rollout. To be eligible for Climate Bonds Certification under the Low Carbon Buildings — Property Upgrades criteria, the upgrades must achieve at least 30% carbon emissions intensity reduction for a 5-year bond moving to 34% for a 10-year bond. This bond requires a minimum 30.8% minimum reduction.	Estimated annual GHG avoided: 30,089.50 tCO_2e Actual % monthly GHG intensity reduction vs baseline year: 53% Carbon reduction initiatives implemented during the 2022 calendar year included the commencement of the installation of a 2.4-Megawatt solar PV system at Eastland, VIC. Once fully operational (expected early FY24) this system is expected to reduce annual emissions at the centre by approximately 2,300 tonnes. As previously communicated, installation of a 5.5-Megawatt solar PV system at Robina Town Centre, QLD, and a 1-Megawatt system at Grand Central, QLD were completed in 2021 calendar year. These systems are now fully operational and contributes to ~5,680 tonnes in annual emissions reductions for these centres. Other carbon reduction initiatives implemented during 2022 included energy efficient LED lighting upgrades across each of the assets and the commencement of upgrades to vertical transport systems at Robina Town Centre, QLD and Grand Central, QLD which also reduce energy use of those systems. **Impact source:** QIC Town Centre Impact Report FY23

Table 19: Labelled bond impact details (continued)

Issuer	ISIN	Alignment	Use of proceeds/KPIs	Reported impact
Queensland Treasury Corporation (QTC)	AU3SG0002371	ICMA Green Bond Principles, CBI	QTC bonds issued under the Green Bond Framework will support Queensland's transition to a low carbon, climate resilient and environmentally sustainable economy. The framework is aligned with the Climate Bond Initiative's Climate Bond Standards and the ICMA Green Bond Principles. Eligible use of proceeds project categories are as follows (ICMA): • Renewable energy • Energy efficiency • Clean transportation • Green buildings • Sustainable water and wastewater management/climate change adaption • Environmentally sustainable managed of living natural resources and land use.	**Renewable energy** • Renewable electricity generation: 204,376 MWh per annum • GHG emissions avoided: 149,194 kt per annum **Clean transportation** • Passenger trips: 55,921,101 • Passenger distance travelled: 1,020,823,245km • Emissions: 205,103 tCO_2e **Sustainable water and wastewater management/climate change adaption** • Installed capacity: 1,803 ML/day • Absolute gross water savings (potential): 111,332,300 M^3 per annum • Absolute gross water savings (realised): 12,548,000 M^3 per annum • Pipelines: 600kms • Dams and weirs: 2,195,859 ML **Impact source:** QTC Green Bond Annual Report 2024
Queensland Treasury Corporation (QTC)	AU3SG0002959	As above	As above	As above
Queensland Treasury Corporation (QTC)	AU3SG0002561	As above	As above	As above

Table 19: Labelled bond impact details (continued)

Issuer	ISIN	Alignment	Use of proceeds/KPIs	Reported impact
Transpower NZ	AU3CB0294528	CBI Climate Bonds Standard ('CBS') Version 3.0	Eligible projects include Transmission and distribution infrastructure or equipment or projects that complies with the following electrical grid criterion: • More than 67% of newly connected generation capacity in the system in which the infrastructure is located is below the generation threshold value of 100g CO_2e/kWh measured on a PCF basis over a rolling five-year period. Eligible assets include overhead lines, towers and poles, transformers and substations, underground cables and circuit breakers and switchgear. Interconnectors the establish electricity flow between separate AC networks are also eligible as are the below actions: • Operation of labour force and equipment for installing or maintaining upkeep and operation of eligible T&D and storage infrastructure. • Manufacturing, operation and/or leasing of vehicles which monitor performance of the assets and allow maintenance work to be done. • Construction, leasing, and operation of buildings which house maintenance equipment, dedicated staff or vehicle.	CBI Category: Transmission and distribution infrastructure projects: • Renewable energy installed capacity: 7,735 MW • Newly installed renewable energy capacity over past 5-years: 486.6 MW • Net renewable energy production: 37,315 GWh p.a. • Five-year avoided CO_2e Emissions: 2,065 to 3,625 tCO_2e/GWh • CO_2 emissions reduced (year to June 2023): 55,410 tCO_2e • Increase of emissions to air (SF6 and other fugitive gases): 73kg Contribution to SDGs: • Affordable and clean energy • Industry innovation and infrastructure • Climate action • Life on land. **Impact source:** Transpower NZ Impact Report FY23
Transpower NZ	AU3CB0300655	As above	As above	As above
Vicinity Centres Re Ltd	AU3CB0289924	ICMA Green Bond Principles	The Green Bond was used to finance lower carbon buildings (with higher NABERS Energy ratings) while diversifying debt funding sources and extending tenor. The Bond also enabled Vicinity to help address the increasing desire from debt investors looking to invest in sustainable debt products. Eligible proceeds include: • Green buildings: Existing and/or planned low carbon and efficient buildings, including upgrades, which meet regional, national, or internationally recognised standards and certifications. • Energy efficiency: Assets or projects that develop the processes and products/technology that reduce the energy consumption of the underlying assets. For example, technologies in new and refurbished buildings, energy storage, district heating, smart grids, appliances, and products. • Renewable energy: Renewable energy facilities such as solar photovoltaic arrays and energy storage solutions. This also includes transmission and support infrastructure for renewable energy.	As at 30 June 2023, Vicinity has 27 Eligible Assets with a 5 Star NABERS Energy rating or better, as outlined as eligible criteria under the Framework, and is valued at A$7.2 billion. The ratio of outstanding Green Bond to Eligible Assets is 4.15% at 30 June 2023. **Impact source:** Vicinity FY23 Impact Report

QIC

Table 19: Labelled bond impact details (continued)

Issuer	ISIN	Alignment	Use of proceeds/KPIs	Reported impact
Western Australia Treasury Corporation (WATC)	AU3SG0002793	ICMA Green Bond Principles	Eligible green projects are those that support the transition to a low carbon economy, climate change mitigation and adaptation initiatives. These include initiatives that are entirely or in part funded by the Western Australian Government through Western Australian State Government agencies, which meet the eligibility criteria set out in the Sustainability Bond Framework. As at the date of the Term Sheet, Eligible projects include: • Metronet • Electric vehicle charging network and purchase rebates • Active infrastructure — shared path programs • Big battery • Standalone power systems • Renewable energy infrastructure • Energy efficiency infrastructure • Renewable energy powered desalination plant. As such, the eligible projects currently fall within the categories listed below, per the ICMA Principles, and as detailed in the Framework: • Sustainable water and wastewater management • Renewable energy and energy efficiency • Clean transportation • Climate change adaption.	**Renewable energy** **Wind farm infrastructure** • Planned total renewable energy generation capacity to be installed up to 250MW **Standalone Power System (SPS) infrastructure** • Number of SPS Installed: 259 • Kilometres of overhead power lines removed: 538 km **Solar schools program** • Number of regional and remote schools completed: 20 **Energy efficiency** **Large-scale batteries** • Capacity installed: 100 MW/200 MWh **Advanced Metering Infrastructure (AMI)** • Number of AMI installed: 628,773 (52% of network connections converted) **LED streetlights** • Number of streetlights converted: 43,179 (15%) • Annual GHG emissions avoided: 6,027 tCO_2e • 64% energy consumption reduction **Clean transportation** **Metronet** • 8.5km new rail line commissioned and 4 new stations • New airport line: 2.9 million passengers • Total network passengers: 50.4 million, +22% yoy **Electric vehicle initiatives** • Number of stations and charging ports installed: 12 stations/38 ports • Number of purchase rebates: 1,578 • Annual GHG emissions avoided: 23.3 tCO_2e **Active infrastructure** • Dedicated pedestrian and bicycle lanes installed: 27 km **Sustainable water and wastewater management** **Renewable energy powered desalination plant** • Planned annual output capacity: 50 GL **Impact source:** WATC Sustainability Bond Annual Report 2023

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Table 19: Labelled bond impact details (continued)

Issuer	ISIN	Alignment	Use of proceeds/KPIs	Reported impact
Westpac	XS2342206591	ICMA Green Bond Principles CBI	Proceeds raised under Westpac's Green Bond Framework will be used to finance or refinance eligible assets which contribute to the delivery of a low carbon economy. The eligible assets currently fall within the categories listed below, per the ICMA Principles: • Renewable energy and energy efficiency • Clean transportation • Green buildings • Sustainable water and wastewater management • Pollution prevention and control • Environmentally sustainable management of living natural resources and land use.	**Reported impact 30 September 2023:** **Green buildings** • GHG intensity: 39.2 kgCO_2e/m^2 **Renewable energy** • Capacity: 4,601 MW • Annual energy generation: 12,036,580.9 MWh • Westpac proportion of annual GHG emissions avoided: 2,164,332.1 tCO_2e **Clean transportation** • Westpac proportion of annual GHG emissions avoided: 25,734.3 tCO_2e **Impact source:** Westpac Green Bond Impact Report 2024
Social				
BNG Bank Nv	AU3CB0285898	ICMA Social Bond Guidelines	Issued under BNG's sub-framework II for loans to Dutch social housing associations. The methodology of the social housing sub-framework maps the housing association's activities to the ICMA SBP and UN SDGs. The proceeds of the BNG social housing bonds will be used to fund the SDG expenditures of the Dutch social housing associations. Relevant SDGs are: • 1 No Poverty • 3 Good Health & Well-Being • 4 Quality Education • 7 Affordable & Clean Energy • 8 Decent Work & Economic Growth • 9 Industry, Innovation & Infrastructure • 10 Reduced Inequalities • 11 Sustainable Cities & Communities • 12 Responsible Consumption & Production • 13 Climate Action • 15 Life On Land • 16 Peace, Justice & Institutions.	**2023 performance:** • 16,015 homes constructed • 2,312,981 dwellings at year end • 2,099,800 individuals/families benefiting from subsidised housing • Energy demand 112.2 kWh/m2 in 2023 and 118 kWh/m2 in 2022 • Percentage of dwellings with solar panels 19.9% in 2023 and 16.2% in 2022 • Number of dwellings with energy label E, F, G"" 180,700 in 2023 and 247,300 in 2022 • Average improvement costs per dwelling: €1,330 in 2022 and €1,263 in 2021 • Liveability cost per dwelling €130 in 2022 and €116 in 2021 • Emissions of particulate matter (PM2.5); 16,843,573 kg in 2022 and 16,999,045 kg in 2021 • Percentage of green space: 9.6% • Number of crimes: 29 per 1,000 inhabitants • Score for exercise friendly environment: 65 is 2022 and 60 in 2020 • Interest coverage ratio: 2.33 in 2022 and 2.20 in 2021 • LTV: 38% in 2022 and 40% in 2021 • Solvency ratio: 57 in 2022 and 56 in 2021. **Impact source:** BNG Bank Performance Report June 24

QIC

Table 19: Labelled bond impact details (continued)

Issuer	ISIN	Alignment	Use of proceeds/KPIs	Reported impact
IFC	AU3CB0301810	ICMA Social Bond Principles	The Social Bond Program supports projects that aim to achieve positive social outcomes especially but not exclusively for a target population. Social project categories as indicated within the Social Bond Principles include, but are not limited to, providing, and/or promoting: • Affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transport, energy) • Access to essential services (e.g. education and vocational training, healthcare, financing and financial services) • Affordable housing • Employment generation including through the potential effect of SM financing and microfinance of small and medium enterprises • Food security • Socioeconomic advancement and empowerment.	**FY23 reported impacts:** • Reach 2,425,631 farmers • Reach 503.9 million patients • Enrol 137,441 students • Supply power to 7.3 million people • Reach 43,114,750 people with telecoms, media, and technology services • Provide 22,893,314 microloans • Provide 802,651 housing loans • Distribute 7,136,999 loans to women-led MSMEs. **Impact source:** IFC FY23 Impact Report
Sustainable				
ANZ	XS2294372169	ICMA Green Bond Principles ICMA Social Bond Principles ICMA Sustainability Bond Guidelines UN SDGs	The ANZ SDG Bond Framework was developed in line with the 2018 and 2020 versions of the International Capital Market Association's ("ICMA") Green Bond Principles ("GBP"), Social Bond Principles ("SBP"), and related Sustainability Bond Guidelines ("SBG"). The proceeds of the SDG Bonds have been used to finance or refinance assets that align with ANZ's Eligible Categories and that promote any of the following eligible SDGs: SDG 3, SDG 4, SDG 6, SDG 7, SDG 8, SDG 9, SDG 10, SDG 11, SDG 12, SDG 13, SDG 14.	As at 31 Dec 2023, proceeds have been fully allocated to eligible assets which align with seven of the eleven selected SDGs. Allocation is as follows: • 10.6% to SDG 11 Sustainable Cities and Communities — social and affordable housing, low carbon transportation facilities • 0.4% to SDG 10 Reduced Inequalities — financial education programs • 39.9% to SDG 9 Industry, Innovation & Infrastructure — buildings with green standard • 20.7% to SDG 7 Affordable & Clean Energy — renewable energy generation and infrastructure (wind, solar and battery storage), smart meters • 18.6% to SDG 3 Good Health & Well-Being — hospital, aged care, specialist disability accommodation • 8.5% to SDG 4 Quality Education — schools, tertiary educational, tertiary educational student housing • 1.2% to SDG 6 Clean Water & Sanitation — drinking water • Break down by Green and Social categories are 70% green, 30% social. **Impact source:** Green and Sustainability Bonds | Debt Investor Centre | ANZ
ANZ	XS2082818951	As above	As above	As above
ANZ	AU3FN0055687	As above	As above	As above

Table 19: Labelled bond impact details (continued)

Issuer	ISIN	Alignment	Use of proceeds/KPIs	Reported impact
BNG Bank Nv	AU3CB0264018	ICMA Sustainability Bond Guidelines	Bank Nederlandse Gemeenten's A$400 million sustainability bond issued in May 2019 is allocated to lending to sustainable municipalities and sustainable social housing associations in The Netherlands. Projects are evaluated and selected by an independent party, the Sustainability Centre of Tilburg University (TSC-Telos) using methodologies based on the UN SDGs that rank Dutch municipalities on a range of sustainability measures: • Framework for Best-in-Class Municipality Investment • Framework for Dutch Social Housing Associations. BNG Bank then uses the Sustainable Bond proceeds to (re)finance loans to the top 15 sustainability ranking of 380 Dutch municipalities and tracks and internally audits the allocations. TSC-Telos then prepares performance/impact reporting.	Bond issued in May 2019. The municipalities funded via the sustainability bond pool increased emissions by 3.7% year on year between 2020-2021 versus a country average of 3.9% increase. Over the 2018-2024 period, the average overall sustainability score improved from 45.6 to 49.2 (on a scale from 0-100). All three underlying capitals improved, although not to the same extent. The economic capital improved most over the period 2018-2024, from 44.9 to 51.8. The ecological capital improved from 42.3 to 45.9 and socio-cultural capital improved least, from 49.6 to 50.0. It even decreased in comparison with the last 5 years. One explanation is the COVID-19 pandemic, which upended many people's lives in health, social and economic participation. **Impact source**: BNG Bank 6th Performance Report
IBRD	AU3CB0295509	ICMA Sustainability Bond Guidelines	World Bank Sustainable Development Bonds support the financing of a combination of green and social, i.e. "sustainable development", projects, programs, and activities in member countries. Each project is designed intentionally to achieve both positive social and environmental impacts and outcomes in line with the World Bank Group's twin goals of eliminating extreme poverty and promoting shared prosperity and the Sustainable Development Goals. To deliver on the twin goals that are aligned with the UN Sustainable Development Goals (SDGs), the WBG's management and shareholders have agreed on three main priorities for our work with developing countries: (1) accelerate sustainable and inclusive growth, (2) invest in human capital, and (3) strengthen resilience.	**2023 achieved results:** • 6.7 million people with enhanced access to transportation services • 4.9 million students with direct interventions to enhance learning • MW of generation capacity of energy constructed or rehabilitated • 8.9 million beneficiaries of job-focused interventions • 4 million people with new/improved electricity service • 101,513 people with new/enhanced access to broadband internet • 2 million people and 141,423 businesses benefiting from financial services • 487,502 farmers adopting improved agricultural technology • 273,138ha with new/improved irrigation or drainage services • 67.9 million people covered by social safety net programs • 11.1 million people with essential health, nutrition and population services • 4.3 million people with improved access to water sources • 10.7 million people with improved sanitation services • 3.4 million people with improved urban living conditions. **Impact source:** IBRD FY23 Impact Report
IBRD	AU3CB0305803	As above	As above	As above

Table 19: Labelled bond impact details (continued)

Issuer	ISIN	Alignment	Use of proceeds/KPIs	Reported impact
New South Wales Treasury Corporation	AU3SG0002926	ICMA Sustainability Bond Guidelines	TCORP intends to allocate proceeds from its issuance of all Sustainability Bonds on an aggregated basis against the projects and assets contained in the Portfolio. As at the date of the Term Sheet, the Portfolio includes the following projects and assets: • Public School Infrastructure • Transport Access Programme — Tranche 3 • Social Housing Maintenance Stimulus Programme • Improving Access to National Parks Programme • Johnstons Creek Stormwater Naturalisation • Cooks River Naturalisation • Parkside Drive Reserve Stormwater Improvement • Milson Park Stormwater Improvement • Parramatta Light Rail • CBD and Southeast Light Rail • Sydney Metro Northwest • Newcastle Light Rail • Lower South Creek Treatment Program • Green Square Trunk Stormwater Improvement • Astrolabe Park Stormwater Improvement • Strangers Creek Stormwater Improvement • Powells Creek Naturalisation • Aboriginal Housing Office Stimulus 2022 Program • Critical Communications Enhancement Program. These projects and assets fall within the following eligible project categories as outlined in the Framework, and within the International Capital Markets Association ("ICMA") Green Bond Principles and ICMA Social Bond Principles: • Clean transportation • Affordable basic infrastructure • Affordable housing • Sustainable water and wastewater management • Access to essential services.	Not available yet, issued in January 2024

Table 19: Labelled bond impact details (continued)

Issuer	ISIN	Alignment	Use of proceeds/KPIs	Reported impact
New South Wales Treasury Corporation	AU3SG0002629	ICMA Sustainability Bond Guidelines	TCORP intends to allocate proceeds from its issuance of all Sustainability Bonds on an aggregated basis against the projects and assets contained in the Portfolio. As at the date of the Term Sheet, the Portfolio includes the following projects and assets: • CBD and Southeast Light Rail • Sydney Metro Northwest • Public School Infrastructure • Transport Access Programme — Tranche 3 • Parramatta Light Rail • Critical Communications Enhancement Program • Waterway Naturalisation and Stormwater Improvement • Improving Access to National Parks Programme • Social Housing Maintenance Stimulus Programme. These projects and assets fall within the following eligible project categories as outlined in the Framework, and within the International Capital Markets Association ("ICMA") Green Bond Principles and ICMA Social Bond Principles: • Clean transportation • Affordable basic infrastructure • Affordable housing • Sustainable water and wastewater management • Access to essential services.	**FY23 impact:** **CBD and Southeast Light Rail** • 30.5mn total passenger trips in FY23 • 11,008 tCO_2e total emissions **Sydney Metro Northwest** • 21.1 million total passenger trips in FY23 • 100% of grid electricity required for operation (84 GWh) is offset by renewable energy through the voluntary surrender of LGCs, avoiding emissions of 63,104 tCO_2e **Paramatta Light Rail (under construction)** • Over 30% reduction in GHG emissions • 22% reduction in water use • 99% of waste diverted from landfill • 1,414 trees planted **Waterway Naturalisation and Stormwater Improvement** • Removal of 501 cubic metres of litter and 304 tonnes of combined sediment and litter • 0.6km of waterways naturalised and 0.5ha of constructed wetland built • ~0.3ha native vegetation gain with more than 74,710 local natives planted including 2,700m^3 of endangered saltmarsh. **Public School Infrastructure** • 14 new schools and major upgrades • 42,815 teaching spaces for the state • 795,497 enrolments for the state **Transport Access Program — Tranche 3** • 15 train station upgrades completed • 69% of NSW train stations accessible to people with physical disability and limited mobility **Critical Communications Enhancement Program** • 48% geographic coverage across NSW vs 35% baseline, 97.6% population vs 80% baseline • 9 operational areas for Emergency Services Operator (ESO) migration • 36.7million voice airtime minutes in ESO communications vs FY16 baseline of 20.2 million **Social Housing Maintenance Stimulus Program** • Maintenance and upgrade of over 12,600 properties **Improving Access to National Parks Program** • 139 projects completed to date, including 17 lookouts with mobility access • 53.2 million visitors to national parks (vs 60.2 million baseline) **Impact source:** NSWTC Sustainability Bond Programme

Table 19: Labelled bond impact details (continued)

Issuer	ISIN	Alignment	Use of proceeds/KPIs	Reported impact
South Australian Government Finance Authority (SAFA)	AU3SG0002983	ICMA Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines	SAFA intends the Framework will: • Reinforce the commitment the state has made to advancing environmental sustainability objectives, in particular climate change mitigation and adaption, natural resource conservation and pollution prevention and control • Support the achievement of the government's higher social welfare goals with positive social outcomes to support the wellbeing of the state's population, especially those underprivileged or unsupported. Eligible projects fall under the following ICMA categories: • Socioeconomic advancement and empowerment • Climate change adaption • Environmentally sustainable management of living natural resources and land use • Food security • Access to essential services • Sustainable water and wastewater management • Renewable Energy • Employment generation • Affordable basic infrastructure • Clean transportation • Affordable housing • Pollution prevention and control • Green buildings • Circular economy, adapted products, production technologies and processes • Terrestrial and aquatic biodiversity.	Not available yet, issued in March 2024

Table 19: Labelled bond impact details (continued)

Issuer	ISIN	Alignment	Use of proceeds/KPIs	Reported impact

Treasury Corporation of Victoria (TCV)	AU3SG0002579	ICMA Sustainability Bond Guidelines
		CBI (at TCV's discretion)
			TCV intends to allocate proceeds against eligible projects which include:
			• Solar Homes Project
			• Victoria Renewable Energy Zones
			• Household Energy Efficiency Upgrades
			• High-Capacity Metro Trains
			• Acceleration of Zero Emissions Vehicles Adoption Program
			• Victoria's Big Housing Build
			• Specialist School Upgrades
			• Inclusion for All: Support for students with a disability in government schools.
			Eligible Projects fall within the categories listed below, per the ICMA Principles, and as detailed in the Framework:
			• Renewable energy
			• Energy efficiency
			• Clean transportation
			• Affordable housing
			• Access to essential services.
				Reported impact as at FY23:
				Renewable Energy Zones
				• When built the projects will support the connection of 900MW of renewable generation
				Solar Victoria Program
				• Total GHG emissions avoided: 2,180,000 tCO_2e
				• Total MW solar panels installed: 3,628,843 panels, 1,563MW
				• Total number and MW home batteries installed: 14,011 batteries, 1,48.1MW
				• Total Solar Hot water units installed: 5,496
				Acceleration of Zero Emissions Vehicles Adoption Program
				• Number of vehicle chargers installed: 112
				Household Energy Efficiency Upgrades
				• Reverse cycle air conditioners installed for low-income houses: 27,159
				• Total GHG emissions avoided: 130.9 tCO_2e
				High-Capacity Metro Trains
				• Trains in service: 57
				• Trains in construction: 13
				Big Housing Build
				• Homes completed or purchased: 2,838
				• Homes underway: 4,801
				• Program level target populations and delivery of housing for these groups:
				  ◦ Survivors of family violence: 414/1000
				  ◦ Aboriginal Victorians: 314,820
				  ◦ Mental Health: 0/2,000
				Inclusion for all, new funding and support model for school students with disability
				• Proportion of students receiving support: 25%
				• Proportion of total Government schools resourced: 80%
				Specialist School Upgrades
				• Number of school upgrades: 8
				• Number of school upgrades underway: 31
				Affordable Housing Investment Partnerships
				• Social housing dwellings delivered: 444
				• Social housing dwellings under construction: 2,708
				Impact Source: TCV Sustainability Bond Annual Report

Table 19: Labelled bond impact details (continued)

Issuer	ISIN	Alignment	Use of proceeds/KPIs	Reported impact
Sustainability-Linked Bonds				
Wesfarmers Ltd	AU3CB0281046	ICMA Sustainability-Linked Bond Principles 2020	Performance-based: Proceeds can be used for general corporate purposes. The performance targets relate to increasing the use of renewable energy in the Group's retail divisions (SPT 1: 100% renewable energy by 31 December 2025) and reducing the CO_2e emissions intensity of ammonium nitrate production in the Wesfarmers Chemicals, Energy and Fertilisers division, the most emissions intensive part of the conglomerate (SPT 2: 0.25 t CO_2e per tonne of AN produced or lower by 31 December 2025 measured over the preceding 24 months).	SPT 1 requirement: Wesfarmers' retail goal is to source 100% of their electricity from renewable sources by 31 December 2025 Performance: Proportional renewable electricity for each division during calendar year to 31 December was 70% for Bunnings, 19% for Kmart Group and 25% for office works. SPT 2 requirement: Wesfarmers Chemicals, Energy and Fertilisers division's' Nitric Acid Ammonium Nitrate production facility to limit average emission intensity to 0.25 tonne CO_2e per tonne of ammonium nitrate produced, or lower by 31 December 2025 based on the 24 months to 31 December 2025. Performance: Emissions intensity was 0.15 tonne CO_2e per tonne of ammonium nitrate based on the 24 months to 31 December 2023. **Impact Report:** Wesfarmers — SLB Progress Report — 2023
Wesfarmers Ltd	AU3CB0281053	As above	As above	As above
Woolworths Group	AU3CB0283406	ICMA Sustainability-Linked Bond Principles 2020	SLB KPI is absolute Greenhouse Gas Emissions (scope 1 and 2, in tCO_2e). SPT: 2030 emissions reduction, as a percentage, in line with 1.5° Paris Agreement scenario and verified by SBTi. For each year prior to 2030, a straight-line interpolation is applied for SPT testing. To align to the goal to keep warming to 1.5 degrees, Woolworths Groups current target is to reduce scope 1 and 2 emissions by 63% from a 2015 baseline, by 2030.	Performance against SBTi: Location-based scope 1 and 2 emissions -32.4% as at FY23 against a -63% reduction by 2030 from a 2015 baseline. Straight-line target, for FY29 target date, will be a -58.8% reduction. **Impact Report:** Woolworths — Performance against SBTi
Woolworths Group	AU3CB0283414	As above	As above	As above

Source: QIC, Bloomberg, Issuer Reports at 30 June 2024.

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8. Counterparty monitoring

LMG monitors counterparties' ESG risks and activities in the same way we review bond issuers.

This is an important contribution to LMG's overlays and implementation mandates as given the derivative nature of most mandates, counterparty monitoring is one of the key ways to incorporate ESG considerations.

All counterparties are monitored via our RepRisk process, MSCI screens and Bloomberg news alerts.

They are also subject to LMG's ESG engagement program where relevant.

We have implemented ESG-related trading restrictions on counterparties, communicating our concerns via engagement. An example is a domestic major bank, where we halved cash trading limits and conducted multiple engagements as they dealt with social and governance issues.

The information below is a snapshot of the ESG monitoring we conducted on counterparties during FY24 using MSCI screening.

Environmental

Summary:

- No orange or red flags related to climate change and energy related policies and initiatives
- No material asset exposure in geographies facing high water stress
- No material exposure to operations with high water intensity
- No material exposure to business segments with high potential disturbances to land and marine areas
- No material exposure to business segments with high toxic emissions and waste intensity
- No material links to deforestation
- Exposure to fragile ecosystems is detailed in Table 20.

Table 20: MSCI environmental screening

MSCI area	Counterparty	Reason
High geographic exposure to fragile ecosystems	Wells Fargo	Estimated 100% of operations located in geographies with highly fragile ecosystems
	Bank of America	Estimated 87.0% of operations located in geographies with highly fragile ecosystems
	Northern Trust	Estimated 73.7% of operations located in geographies with highly fragile ecosystems
	State Street	Estimated 69.8% of operations located in geographies with highly fragile ecosystems
	Toronto-Dominion	Estimated 39.0% of operations located in geographies with highly fragile ecosystems
	UBS	Estimated 33.9% of operations located in geographies with highly fragile ecosystems
	Royal Bank of Canada	Estimated 31.9% of operations located in geographies with highly fragile ecosystems
	Barclays	Estimated 31.1% of operations located in geographies with highly fragile ecosystems
	ANZ	Estimated 21.5% of operations located in geographies with highly fragile ecosystems
	Mizuho	Estimated 21.0% of operations located in geographies with highly fragile ecosystems

Source: QIC, Aladdin, MSCI at 30 June 2024.

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Social

There were no severe incidences of modern slavery identified in our RepRisk Screen in FY24 for LMG's counterparties.

Table 21: RepRisk modern slavery counterparty screen summary FY24

Severity	Counterparties
Minor	9
Moderate	3
Severe	0
Total	**12**

Source: QIC, Aladdin, MSCI at 30 June 2024.

There were **no red or orange flags for controversies related to child labour or human rights** identified in the MSCI screen applied to LMG counterparties as at 30 June 2024. Details of counterparties with orange flags for labour rights violations are provided in Table 22.

We also screen the counterparties for independence and gender diversity of their Boards. While we did not find any issues with independence, the table below details counterparties where, in our view, board level gender diversity could improve.

Table 22: MSCI counterparty labour rights screen

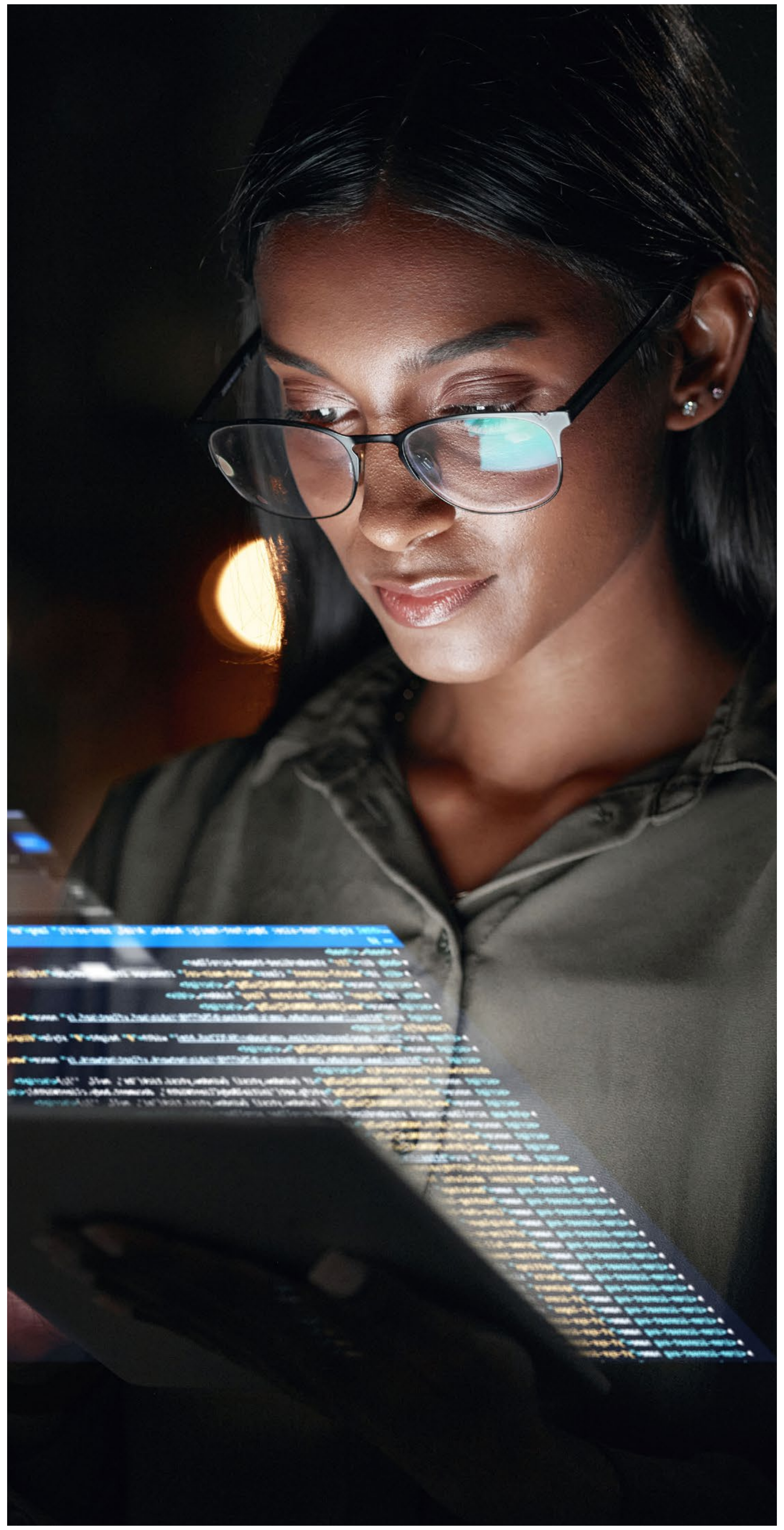
MSCI area	Counterparty	Global compact status	Reason
Orange flag: Labour Rights Controversy	Commonwealth Bank of Australia	Pass	Ongoing severe controversy related to alleged underpayment of employee's superannuation, wages, and other entitlements
	National Australia Bank	Pass	Ongoing severe controversy related to an Internal investigation and union criticism against alleged underpayment of employees
	Royal Bank of Canada	Pass	Ongoing severe controversy related to a certified class action alleging unpaid vacation and holiday pay affecting commissioned-based advisors
	Wells Fargo	Pass	Ongoing certified class action lawsuit against Wells Fargo over alleged unpaid minimum wage per hour worked and overtime wages for mortgage consultants

Source: QIC, Aladdin, MSCI at 30 June 2024.

Table 23: MSCI gender diversity screen

MSCI area	Counterparty	Reason
Female directors (Less than 30% female directors)	Mizuho	14% female directors
	SMBC	23% female directors
	Nomura	25% female directors
	Mitsubishi UFJ	27% female directors

Source: QIC, Aladdin, MSCI at 30 June 2024.



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Governance

With business ethics being a material source of risk for financial institutions, we also apply an MSCI screen for controversies relating to the ethical conduct of LMG's counterparties, including those relating to fraud, corruption, bribery and fiduciary responsibility. The screen did not identify any red flags, and we note the orange flags detailed below largely relate to historical cases, with only one new case identified in 2024.

Table 24: MSCI counterparty governance screen

MSCI area	Counterparty	Global compact status	Reason
Orange flag: Bribery and Fraud	**Bank of America**	Pass	Investigation and antitrust lawsuit over alleged manipulation of interest rates on variable-rate demand obligations (2008)
	Barclays	Pass	Investigation and antitrust lawsuit over alleged manipulation of interest rates on variable-rate demand obligations (2008)
	BNP	Pass	Lawsuits and investigation into alleged sanctions and human rights violations through the facilitation of financial services for the Sudanese government (1997)
	Deutsche Bank	Pass	Investigations and investor lawsuits over alleged price manipulation of supranational, sub-sovereign, and agency (SSA) bonds (2014)
	HSBC	Pass	Investigations over allegations of helping clients evade tax from 2005–2011 in multiple locations Settlements and penalties over alleged foreign exchange market manipulation; lawsuits ongoing (2003)
	JP Morgan	Pass	DOJ and SEC investigation over alleged manipulation of interest rates on variable-rate demand obligations (VRDOs); local governments filed lawsuits (2008) Alleged interbank lending rates manipulation from 2007-2010 Investigations and lawsuits over alleged foreign exchange market manipulation; settlements with the European Commission and Swiss Competition Commission in 2019 Regulatory investigations and class action lawsuits in relation to alleged precious metals price manipulation; settlements reached with US DOJ and CFTC (2004)
	NatWest	Pass	Coutts & Co, Malaysia: Investigations into alleged involvement in 1MDB money laundering scandal (2009) Regulatory penalties over alleged interbank lending rates manipulation until 2010; class action lawsuits pending in US, UK and Israel (2005) Settlements and penalties over alleged foreign exchange market manipulation; lawsuits pending (2003)
	Nomura	Pass	Investigations and lawsuits over alleged manipulation of bond prices in the government-sponsored bond market; EUR 129.6 million fine appealed (2011)
	Royal Bank of Canada	Pass	Investigation and antitrust lawsuit over alleged manipulation of interest rates on variable-rate demand obligations (2008) City National Bank, US: OCC imposed penalty over reported lapses in risk management and internal controls (2024)
	Société Generale	Pass	Alleged interbank lending rates manipulation until 2012
	Goldman Sachs	Pass	Settlements and regulatory penalties due to 1MDB-related criminal and bribery investigations and charges; proposed securities class action lawsuit still ongoing (2009) Investigation and antitrust lawsuit over alleged manipulation of interest rates on variable-rate demand obligations

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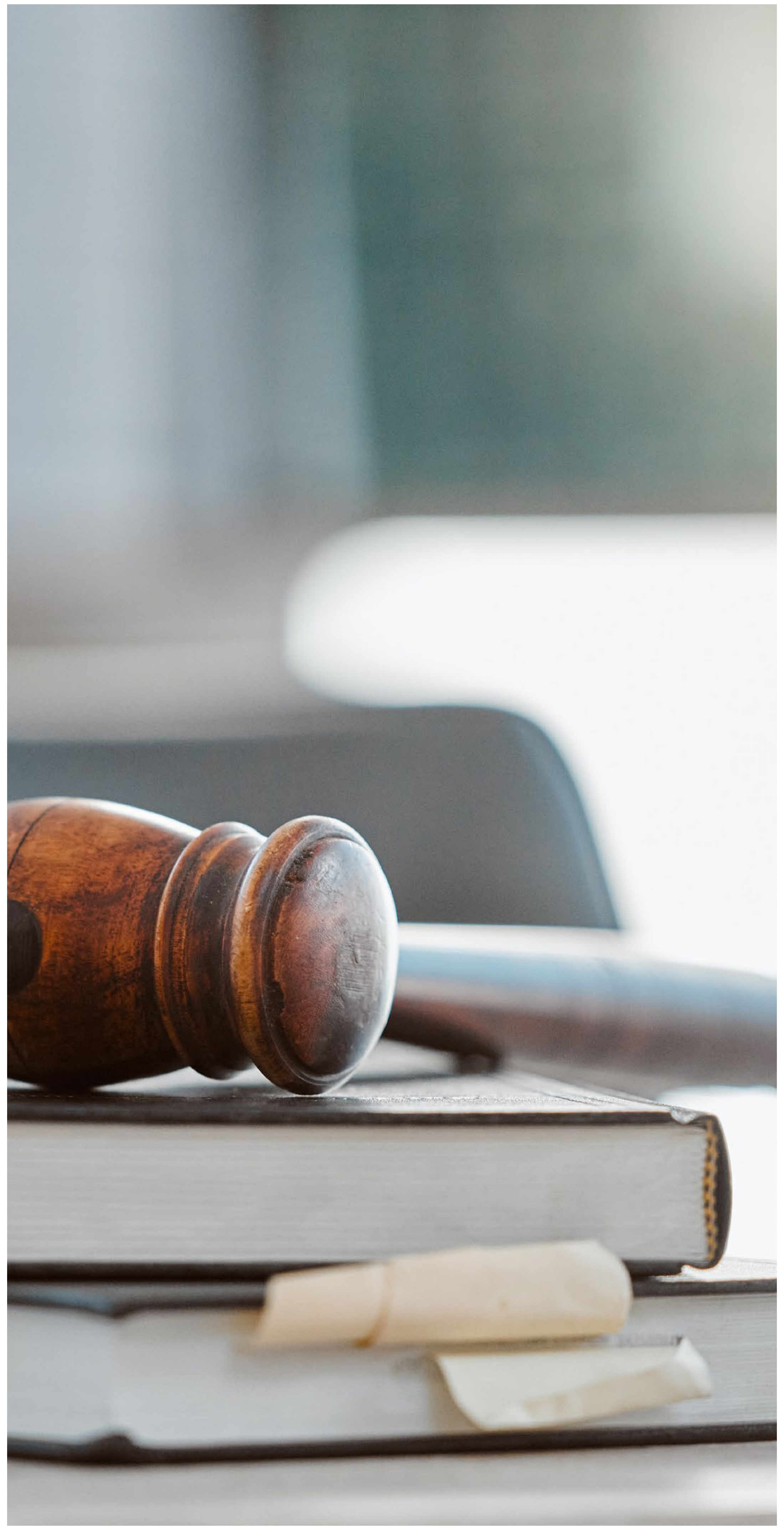
Table 24: MSCI counterparty governance screen (continued)

MSCI area	Counterparty	Global compact status	Reason
Orange flag: Bribery and Fraud	**UBS**	Pass	Alleged interbank lending rates manipulation until 2011 Credit Suisse: Regulatory settlements over alleged risk management lapses from Archegos exposure; investor lawsuits pending (2021) Investigations and lawsuits over alleged foreign exchange market manipulation (2003) Investigation and lawsuits over alleged manipulation of bond prices in the government-sponsored bond market; EUR 172.4 million fine appealed (2007) France: Court penalty of EUR 1.8 billion over allegations of facilitating tax evasion for clients between 2004 and 2012
	Wells Fargo	Pass	Investigation and antitrust lawsuit over alleged manipulation of interest rates on variable-rate demand obligations (2008)
Orange flag: Controversial Investments	**HSBC**	Pass	Peru: NGO criticisms over alleged financing of oil refinery projects on indigenous lands in the Amazon (2021)

Source: QIC, Aladdin, MSCI at 30 June 2024.



9. Exclusions and positive impact investments

ESG thematics can include trades that seek to obtain or protect against an E, S or G theme. For example, a client interested in climate change risk and opportunities might want to remove or hedge exposure to fossil fuels or look to participate in transition opportunities, using either physical or derivative instruments. Similar thematics could include biodiversity or social themes such as healthcare.

We are seeing a trend towards transition finance with exclusions as a last resort, though we also expect investors may revisit approaches to exclusions as:

- Data availability and transparency improves, for example with the passage of climate legislation — this could have the short-term impact of triggering additional exclusions, but it could also focus the market on opportunities
- Alpha opportunities emerge (derivative and physical) in industries, entities and instruments likely to benefit from changing investor preferences and demand.

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QIC-wide exclusions

QIC's Sustainable Investment Policy is available on the QIC website.

As far as practicably possible, QIC does not invest in companies generating revenue from the production or manufacture of tobacco and related products[8], nor do we have exposure to controversial weapons.[9] As far as practicably possible, QIC will limit its investment exposure to the producers or manufacturers of nuclear fissile materials, nuclear warheads and nuclear missiles or sole use componentry to companies headquartered or listed in France, United Kingdom, United States, Russia or China.[10]

An example of where it may not be practicably possible to apply these exclusions within LMG includes investments in derivative indices or pooled investment vehicles via external managers.

In addition, we exclude all entities and individuals legally required as part of compliance with international sanctions.

These exclusions are applied to all mandates operated by LMG.

LMG exclusions

LMG applies a dynamic exclusion approach in fixed income mandates to idiosyncratic ESG issues that can arise during the life of an investment but that do not always warrant a firmwide permanent exclusion.

Alongside engagement, where appropriate we apply temporary limits or exclusions to an issuer or industry where we believe there is potentially mispriced performance risks due to the ESG issue.

ESG considerations are also a component of our credit score process, which takes into account ESG practices and fundamentals of an issuer or counterparty, with the influence of the ESG component on the score dependent on the materiality of ESG risks or opportunities for that industry or entity.

During FY24 we did not add to or remove any entities form the dynamic exclusion list.

In addition, LMG applies client-directed exclusions to segregated mandates.

Hedging ESG preferences

During the year we investigated trades to hedge fossil fuel exposure from the ASX200 using Credit Default Swaps (CDS) or other instruments. In general, we found a lack of liquidity in some fossil fuel-related CDS names made the exercise futile.

However, there are a range of commodities futures and swaps that may allow an investor to hedge risk or gain exposure to a theme and we explore these through topics in LMG's quarterly derivatives research piece, *The Basis*.

For investment grade bond investors in Australia, there are not many pure play fossil fuel bond issuers in the AUD market. Other idiosyncratic ESG concerns can generally be avoided by avoiding the bond. The common fixed income benchmarks in Australian dollars, the Bloomberg AusBond family of indices, do not offer an ESG-themed benchmark nor does the benchmark methodology take into account ESG factors.[11] Bloomberg and other providers do offer ESG-themed fixed income benchmarks in other currencies.

Positive screening

LMG has been looking at opportunities for clients to structure trades with a positive ESG impact.

For derivative mandates, opportunities to structure themes include via commodities including critical minerals, carbon, and equity markets, and via non-AUD fixed income opportunities.

For bond investors, in our view currently the most practical way to express a positive impact in Australian dollars is via labelled bonds where investors can gain exposure to green and/or social projects and assets, and ESG targets. Outside labelled bonds we are not yet seeing institutional sized bond opportunities to tilt portfolios, however investors can start to shape portfolios via targets such as net zero.

8 Companies that manufacture tobacco products, such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco. This also includes companies that grow or process raw tobacco leaves.

9 Controversial weapons are defined as biological and chemical weapons, blinding laser weapons, depleted uranium, cluster munitions, landmines, white phosphorous, and weapons that used non-detectable fragments.

10 These countries are recognised as 'nuclear weapon states' under the Nuclear Non-Proliferation Treaty.

11 https://data.bloomberglp.com/professional/sites/10/AusBond-and-NZBond-Index-Methodology.pdf

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