CSF Pty Limited
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MYLIFEMYMONEY Superannuation Fund

Climate Change Policy

October 2017

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1. Policy Objectives

1.1. Overview

1.1.1. This policy provides a framework for CSF Pty Limited (the Trustee), the Trustee of MYLIFEMYMONEY Superannuation Fund (the Fund), to manage the investment impacts of climate change in a way that seeks to protect and enhance the value of its members' assets over the medium to long term.

1.1.2. The policy has three components:

1) investment beliefs with respect to climate change;

2) management of climate change impacts; and

3) measurement and reporting of outcomes to members and stakeholders.

1.2. Associated Documents

1.2.1. This Policy should be read in conjunction with the Trustee's other investment related policies: **Investment Policy Statement, Responsible Investment Policy,** and **Voting Policy**.

2. Investment beliefs and climate change

2.1. Investment Beliefs

The Fund's core beliefs with respect to climate change are:

2.1.1. The Fund believes that climate change is a major, systemic risk that could destabilize global economies and investment markets to a significant degree. Accordingly, the Trustee must be vigilant and proactive in assessing and managing these risks as part of its fiduciary duty to members.

2.1.2. The Fund notes the agreement amongst governments of major countries to limit the increase in global average temperatures to well below 2 degrees above the pre-industrial level. The Fund believes that strong and consistent public policy is needed to achieve this target, together with co-operation from across the global community, in particular from the corporate and investment sectors.

2.1.3. The Fund believes that it will be important to monitor the outcomes of international climate change policy negotiations in terms of the cost of carbon implications and how these vary by region and by country. The outcomes of these negotiations will influence how rapidly new technologies and investment flows emerge.

2.1.4. The Fund believes that any slippage in the international climate change policy measures that could risk a 4 degree or higher temperature outcome will be a highly risky outcome for global economies and investment markets.

2.1.5. The Fund believes that investment markets and the Fund's external managers can be excessively focused on shorter-term considerations and therefore may not adequately manage the risks and opportunities that arise due to climate change.

2.1.6. The Fund believes that climate change is already causing physical impacts which are influencing investment outcomes in some areas. The risks arising from these physical impacts need to be assessed and managed. They could directly affect the value of some of the Fund's assets, such as property and infrastructure, as well as the operations of companies most at risk. They could also affect the resilience of the global economic and financial system. Countries that are most at risk from the physical impacts of climate change include developing economies where the Fund has direct exposure. Australia is also heavily exposed to the physical impacts of climate change.

2.1.7. The Fund believes that the global climate change mitigation (emissions reduction) commitments from governments, companies, investors and civil society will support ongoing actions around the world to reduce carbon emissions and improve energy efficiency, with a high degree of variability and uncertainty as to the outcomes of these actions across different regions, countries, asset classes and companies. The Fund believes that we are at a relatively early stage of a decades-long transition to a lower-carbon economy and that this transition will influence virtually every part of the global economy, and in a profound way in some areas.

2.1.8. The Fund believes that as a result of climate change mitigation efforts, some assets could become 'stranded' (or may have already) - that is, significantly re-priced downwards - in response to the combination of physical adaptation of climate impacts and the shift towards lower carbon, more energy efficient technologies. The risk of stranded assets needs to be assessed and managed. The rapid pace of technological change and innovation means that stranded asset risk applies even to some assets that were originally seen as part of the solution, such as some forms of renewable energy generation.

2.1.9. The Fund believes that the transition to a low carbon, energy efficient and more climate resilient world also presents new investment opportunities. Low carbon technologies, energy and resource efficiency solutions and adaptation investments will continue to grow in the developed and developing world. The Fund seeks to invest in new opportunities that are positioned to benefit from this transition provided that they offer attractive risk/return characteristics. Many of the investment opportunities currently open to us may require Government subsidy support of some sort and will therefore be subject to significant policy risk. This will need to be taken into account when assessing the investment merit of such opportunities.

2.1.10. The Fund believes that the investment flows into low carbon, energy efficient, climate resilient opportunities will support the development of new financial products, instruments and partnerships in the global investment markets, including partnerships between public and private sector investors across developed and developing economies. For this reason the Fund is an active participant in collaborative efforts and international forums that focus on innovative climate change solutions.

2.1.11. The Fund believes that integration of climate change investment risk and opportunities into investment decisions is vital to shift the global economy and investment markets on to a more sustainable and resilient path and to enhance our members' interests through this transition. More specifically, the Fund believes that (in addition to engagement with policy makers), engagement with investment managers and engagement with investee companies to encourage better measurement and management of the risks and opportunities will, together with effective policy action, support the transition to a lower carbon, more energy efficient, climate resilient world.

2.1.12. The Fund believes that collaboration with other investors, companies, regulators and civil society groups is needed to address the large scale, systemic challenges around climate change. More specifically, it believes that collaborative engagement between investors will better leverage the influence that investors can have in achieving positive outcomes.

2.1.13. The Fund believes that divestment from fossil fuel assets is not an effective way to achieve positive change in this transition process for two main reasons. Firstly, investors can have more influence over companies and their behavior if they stay invested; once an investor sells a company they lose influence. Secondly, fossil fuels will retain an important share of global energy markets at least for a number of decades. Accordingly, the prospect is for a re-pricing of some 'at risk' high carbon assets and a reduction in the proportional contribution which fossil fuels make to meeting the growing global demand for energy as renewable energy sources and new technologies continue to grow.

2.1.14. The Fund does not have a specific view on the development and adoption of negative emission technologies (e.g. afforestation, agricultural soil carbon sequestration, bioenergy and carbon capture and storage, to name a few) or the pathway for cost effective energy storage solutions. Developments in these areas will be important to monitor, however, as the utilization of such technologies will impact on the size, function and operations of the fossil fuel industry in the transition to a lower carbon, more energy efficient economy.

3. Management of climate change risks and opportunities

3.1. Overview

3.1.1. The Fund believes that the position of our portfolio in terms of carbon exposure should be monitored and managed. To reduce the risk of inadvertent exposure to policy and technological developments, the portfolio should ideally be positioned ahead of the expected transition to a lower carbon economy.

3.1.2. The Fund seeks to manage the risks and capture the opportunities which will arise in a number of ways. These include activities both in relation to mitigation (the reduction of carbon emissions), as well as activities related to the need to adapt to the changing climate (adaptation).

3.1.3. The Fund will focus its efforts in particular on the following activities:

3.2. Reduce the carbon intensity of the listed equity portfolio

3.2.1. In respect of its listed equity portfolio, the Fund would like to see:

- A reduction in the carbon intensity over the medium to long-term in a manner that is consistent with an outcome of considerably less than +2 degrees above the pre-industrial average.
- The carbon intensity of the Fund's listed equity portfolio to be lower than that of the relevant equity index.

3.2.2. The Fund will pursue these outcomes through its engagement efforts with companies, with fund managers and/or through investing in new strategies that might help to reduce the overall carbon intensity of the listed equity portfolio. This will include the potential role of passive or actively managed solutions that mitigate climate risk without adversely impacting on the Fund's overall risk/return profile.

3.3. Measure the carbon footprint and intensity of the listed equity portfolio

3.3.1. The Fund commits to measure and report the carbon footprint of its listed equity portfolio in support of the Montreal Pledge launched by the Principles for Responsible Investment (PRI).

3.3.2. The Fund engages a specialised service provider to undertake an annual review of its listed equity portfolio. The Fund also engages with its listed equity fund managers to encourage them to start measuring and reporting the carbon footprint and intensity in the future.

3.3.3. As the skills and capabilities of the industry develop, the Fund will expand the measurement of the carbon intensity of its assets to other asset classes.

3.4. Engage with companies

3.4.1. The Fund's policy is to engage with investee companies to encourage them to better manage and reduce the carbon exposure and carbon intensity of their business operations.

3.4.2. The Fund also seeks to understand how companies are preparing for the physical impacts of climate change and the adaptation plans and measures that they have in place.

3.4.3. The Fund encourages its fund managers to engage with companies on ESG issues to reinforce the message from the collaborative networks.

3.4.4. The Fund engages with companies collectively through investor networks and specialist engagement organisations.

3.4.5. For Australian equities, the Fund is a member of the Australian Council of Superannuation Investors (ACSI), which provides independent research and advice to assist its members to manage ESG investment risk. This includes engagement on Australian listed companies and proxy voting advice. The Fund also utilises the services of Regnan, a company that identifies and assesses ESG risks and engages with S&P/ASX200 companies to improve corporate and market performance.

3.4.6. For International equities, the Fund has appointed BMO Global Asset Management (formerly F&C Investments) to provide its REO global engagement service. This service engages with international companies on ESG issues and seeks to raise standards of ESG reporting, integration and processes across companies' operations and activities.

3.5. Engage with policy makers

3.5.1. The Fund engages in the climate policy debate both at the domestic and international level, to encourage policy action that is consistent with an outcome of considerably less than +2 degrees.

3.6. Engage with fund/asset managers

3.6.1. The Fund encourages its fund managers to measure, report and, subject to consideration of broader investment issues, reduce the carbon intensity of their portfolios over the medium to long term. The Fund also seeks to understand and evaluate the extent to which assets might be at risk from the physical impacts of climate change and the extent to which asset managers are considering adaptation measures as part of the investment evaluation process, particularly for its property and infrastructure assets.

- **Measure**. The Fund has requested its listed equity fund managers to consider measuring and reporting the carbon emissions and intensity of their investment portfolios (taking into account data limitations). Where relevant by asset class and type of investment, the Fund will seek an appraisal of assets that are the most 'at risk' from the physical impacts of climate change.
- **Integrate.** The Fund has evaluated how its listed equity and property fund managers integrate carbon exposure as part of the investment decision-making process. The Fund utilizes industry tools to support this process[1]. The Fund will continue with this evaluation process and extend it to all asset classes and expand this over time to also consider adaptation risks for those assets most at risk.
- **Active ownership.** The Fund considers how its fund managers interact with the underlying entities in which they invest on issues related to climate impact risk, carbon exposure, how the managers vote on climate change related issues where applicable and the extent to which carbon intensity is included in the active buy/sell decisions. In Australian equities, the Fund exercises its own voting rights, taking into account climate change issues where applicable.
- **Collaborate.** The Fund considers the extent to which fund managers engage with other investors or industry initiatives on climate impact (adaptation) risk, carbon emissions measurement, reporting and reduction.
- **Mandate design.** The Fund will communicate this climate change investment policy to its fund managers and request that, subject to the constraints of their process and mandate, they invest in a manner that is consistent with this policy. It will also consider this climate change investment policy when appointing new investment managers, including (depending on the asset class and type of mandate) the climate impact (adaptation) risk and the fund manager's ability to measure and report emissions as well as adhere to the Fund's climate change policy.
- **Replace fund managers.** The Fund recognizes that fund managers have a variety of ways to add value and that the extent to which climate change risks and opportunities are relevant to their particular investment process and mandate will vary significantly. Nevertheless, the Fund could consider replacing existing fund managers where there are concerns about, inter alia, how carbon exposure and climate impact (adaptation) risk is being managed over time and where the risks are considered to be too high to retain the mandate.

[1] For example, GRESB for sustainable property and infrastructure, and MSCI ESG Manager Research for listed equities.

3.7. Climate-themed investment

3.7.1. In light of the Fund's investment beliefs with respect to climate change and the risks and opportunities that it presents, the Fund seeks out, evaluates and considers investing in strategies that will benefit from the transition to a low carbon, energy efficient, climate resilient future. The Fund considers strategies across asset classes and evaluates them on the same risk/return criteria and assessment process as it applies in respect of other strategies.

3.7.2. The climate or sustainability-themed investments made to date include listed equities, private equity, private debt, real estate and infrastructure. In aggregate, as at mid 2017, the value of the assets that can be considered low carbon, energy efficient or broadly defined as 'sustainable'[2] was approximately 10% of the Fund's total assets. The Fund will monitor this exposure and would like to see it increase over time in line with an outcome well below +2 degrees. Due to the high risk, the Fund will avoid attempting to "pick winners". New climate-themed investments will tend to be at the lower risk end of the spectrum, to have secure underlying cashflows and/or be contained within mandates/strategies with a broad universe of underlying investments.

3.8. Collaboration and joint industry initiatives

3.8.1. The Fund collaborates with other investors, public policy makers, research groups and civil society groups to address the risks and opportunities of climate change.

3.8.2. The Fund's CEO is the Chair of the Investor Group on Climate Change (IGCC) and also supports the activities of its global counterpart the Global Investor Coalition on Climate Change (GIC). The GIC has also established the Low Carbon Investor Registry (http://globalinvestorcoalition.org/form-registry/) of investment opportunities that the Fund sponsored and has participated in updating.

3.8.3. The Fund is a member of the UN-backed Principles for Responsible Investment (PRI), which has launched the Montreal Pledge and research projects on climate change.

[2] This includes Generation Global Equity Fund, Stewart Investor's Worldwide Sustainability Fund; Generation Global Credit Fund; EIB GEEREF (Global Energy Efficiency and Renewable Energy Fund),Lighthouse Solar Fund, Quinbrook Low Carbon Power Fund, some low carbon, renewable energy assets within the IFM and ICG infrastructure portfolios, and the 4 star or above rated property assets within the AMP, Lend Lease, Goodman and GPT property portfolios. In addition to those investments listed on the Low Carbon Investor Registry (http://globalinvestorcoalition.org/form-registry/) the Generation and Stewart Investors listed equity assets have been included in this estimate as they specifically target investing in companies that are 'sustainable' in terms of how they manage E, S and G issues, including a strong focus on climate change.

4. Measure and report outcomes to members and stakeholders

4.1. Reporting to Members

4.1.1. The Fund measures and reports outcomes on its activities and progress to members on a regular basis via the Fund’s member communication channels.

4.1.2. The Fund will refine and improve what it measures and reports in relation to climate change investment as the industry’s tools and capabilities improve.

4.2. Reporting to Other Stakeholders

4.2.1. The Fund’s support for the PRI Montreal Pledge means it has made a commitment to measure and publicly disclose the carbon footprint of the listed equity investment portfolios on an annual basis, beginning in Q4 2015.

5. Policy Review Process

5.1. Annual Review

5.1.1. This Policy will be reviewed on a biennial basis.

5.1.2. Prior to the commencement of this review, the Investment Management Group will determine whether the review will be undertaken internally, or outsourced to an appropriately qualified and experienced service provider, or a combination of both.

5.1.3. The results of the review will be reported to the Trustee Board for approval.

5.2. Ad Hoc Review

5.2.1. The Investment Management Group or the Trustee may determine to complete an ad hoc review of this Policy in response to:

a. A change to the Relevant Law.

b. A material change to the operation of the Fund Secretariat or to the Trustee's business objectives or budget.

c. A change to one or more of the Trustee's material service providers.

5.2.2. Prior to the commencement of this review, the Investment Management Group will determine whether the review will be undertaken internally, or outsourced to an appropriately qualified and experienced service provider, or a combination of both.

5.2.3. The results of the review will be reported to the Trustee Board for approval.