INSURANCE COUNCIL AUSTRALIA

KATE BROMLEY

28 April 2020

AGENDA

ABOUT QIC

A longstanding heritage with an established platform enabling us to become the visionary asset manager we are today.

- $80 billion in funds under management[1]
- Over 110 clients including government, pension plans, sovereign wealth funds, universities and insurers. Spanning Australia, Europe, UK, Asia, Middle East and US
- Established in 1991 by the Queensland Government to serve its long-term investment responsibilities
- Over 1000 employees with offices in Brisbane, Sydney, Melbourne, New York, Los Angeles, Cleveland, San Francisco, London and Copenhagen

- GLOBAL INFRASTRUCTURE
- GLOBAL REAL ESTATE
- GLOBAL PRIVATE CAPITAL
- GLOBAL LIQUID STRATEGIES
- GLOBAL MULTI-ASSET

[1] As at 30 June 2019. All figures in AUD.

RESPONSIBLE INVESTMENT AT QIC

We believe that environmental, social and corporate governance (ESG) factors can have a material impact on the long-term outcomes of investment portfolios and the assets that we invest in.

OUR AIM

- To deliver innovative yet pragmatic ways to integrate ESG considerations across the full range of asset classes we invest in, and, to keep pace with the expectations of our stakeholders.
- Strong support from the QIC Board and Executive; CEO and executives sit on the ESG Advisory Committee, chaired by a QIC Board member.
- Responsible Investment team reports to Executive Director, Client Solutions & Capital.
- Supported by ESG champions across the business to integrate ESG into day to day operations.

THE TEAM

HEAD OF RESPONSIBLE INVESTMENT
Kate Bromley

SENIOR MANAGER, RESPONSIBLE INVESTMENT
Andrew Saunders

RESPONSIBLE INVESTMENT ANALYST
Genevieve Beresford

RESPONSIBLE INVESTMENT INTERN
Ben Cichero

Supporting our over-arching strategy is our ESG Framework. This framework provides a common platform for our teams to address what we believe are the most material ESG issues for our investment portfolios. Our six areas of focus are:

Climate Risk	Environmental Sustainability	People	Community	Corporate Governance	Active Ownership
• Adaptation to physical impacts • Impacts of transition to a low carbon economy	• Environmental impacts • Resource efficiency • QIC's own footprint	• Workplace health and safety • Labour rights • Human rights in supply chains • Diversity and inclusion	• Community engagement • Indigenous partnerships	• Board leadership • Culture • Transparency and disclosure • Risk management	• Active asset management • Corporate engagement • Proxy voting

The risks and opportunities posed by observed and projected changes in the climate have the potential to impact the companies and assets we invest in. In addition, a transition to a low carbon economy presents a range of implications for businesses and the economy as a whole.

We use the Taskforce on Climate-related Financial risk Disclosure (TCFD) framework to define climate risk

Climate risk	
Transition risk	Physical risk
Policy and legal risk	Acute risk
Technology risk	Chronic risk
Market risk	
Reputational risk	

"We consider climate risk to be material and we are working towards building our understanding and capacity to manage this risk."

Australian Prudential Regulation Authority

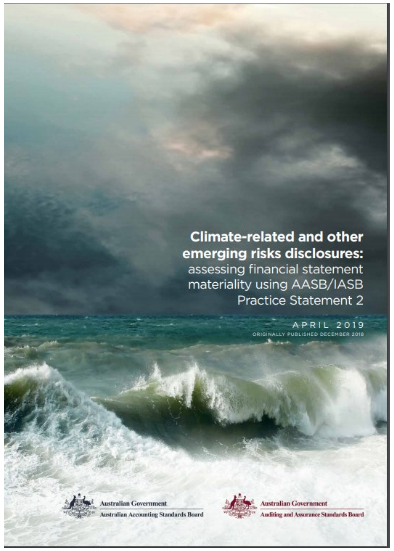
In February 2020, APRA wrote to all APRA-regulated institutions outlining plans to develop a prudential practice guide focused on climate-related financial risks, as well as a climate change vulnerability assessment.

Central Banks and Supervisors Network for Greening the Financial System

The Network of Central Banks and Supervisors for Greening the Financial System is a collaborative structure that aims to green the financial system and strengthen the efforts of the financial sector in achieving the Paris climate agreement goals. This for example includes mobilising capital for green and low-carbon investments. The NGFS also identifies what measures are needed to manage climate risks.

ASIC Australian Securities & Investments Commission

In August 2019, ASIC published updates to clarify the application of ASIC's existing regulatory guidance to the disclosure of climate change related risks and opportunities. These include the incorporation of the types of climate change risk developed by the G20 Financial Stability Board's Taskforce on Climate Related Financial Disclosures (TCFD) into the list of examples of common risks that may need to be disclosed.



In April 2019, the Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Boards (AuASB) jointly issued guidance the to financial statement preparers and auditors on how to consider climate-related risks in the context of the financial statements, including their potential impact on the amounts recognised and associated disclosures.

Australian Government
Australian Accounting Standards Board

Australian Government
Auditing and Assurance Standards Board

ACTIONS TO BUILD RESILIENCE

We're interested in how variations in the climate bear out in terms of revenue resilience, safety and wellbeing and our reputation as a fund manager and our clients' reputation.

Determining our approach

- After an initial climate risk assessment of our assets we undertook industry engagement to build our asset-specific resilience assessment
- Significant gaps between what Global Climate Models are designed to do and demands from businesses
- We use the TCFD categories of physical climate risk (chronic and acute) to determine our actions in building the physical resilience of our assets

Physical climate risk actions

Chronic

Changing weather patterns:
- Temperature
- Rainfall
- Drought

OBJECTIVE:
- Manage operational cost
- Manage environmental impact of asset

ACTIONS:
- Energy optimisation (plant and equipment efficiency)
- On-site renewable energy
- Water efficiency and harvesting technologies

Acute

Extreme weather events:
- Flood
- Cyclone
- Bushfire

OBJECTIVE:
- Ensure safety and wellbeing
- Limit operational disruption
- Minimise asset damage

ACTIONS:
- Regular maintenance of culverts and gutters
- Flood defence equipment to protect key infrastructure
- Flood Management Plan
- Emergency Management Plan

FINANCING PHYSICAL RESILIENCE

LINKING FINANCE AND PHYSICAL RESILIENCE

- In 2018, approximately 57% of infrastructure built was completed for the public sector
- Financing the recovery from climate related damages, like flood and cyclones, is a rising challenge
- Infrastructure that is unprepared for a net zero emissions future risks becoming 'stranded' due to significant, unanticipated losses of value and restricted pools of financing
- For investors, the physical and transition risks of climate change have flow-on effects for insurance premiums, credit risks and portfolio value-at-risk

FINANCE OPTIONS

- Sustainable and Green finance – link financial products to sustainable and green targets/indicators
- Can take the form of green/sustainable bonds, loans, or funds allocated exclusively to climate change solutions.
- Sustainable/green bonds and loans can incentivise improvements in borrows' sustainability and green (for example, emissions and energy efficiency) performance by offering a discounted loan margin is sustainable/green indicators are met.
- Some examples of green financial products that exist in the market include: Green Loan, Green Securitisation, Green Financial Bond, Green Sovereign bond, Green Project Bond, Green Supranational Bond and Green Government Agency Bond
- The Climate Bonds Initiative includes flood-defence and nature-based solutions as an approved criteria in it's Climate Bonds Taxonomy. Climate Bonds Standard and Certification Scheme is used globally by bond issuers, governments, investors and the financial markets to prioritise investments which genuinely contribute to addressing climate change.

EXAMPLES

There is an increasing pool of green and sustainable finance allocated exclusively to climate change related projects:

- In February 2018, ANZ launched their Sustainable Development Goals (SDG) Bond Framework. Included in their Eligibility Criteria is adaptation projects that can demonstrate their contribute to reducing vulnerability to climate change identified in the project area and do not increase carbon emissions, such as:
  - i) Natural disaster prevention infrastructure (e.g. flood alleviation schemes); or
  - ii) Education programmes to increase awareness and knowledge on climate related issues
- NAB and Westpac have committed to lending to support the transition to a low-carbon economy; Westpac in March 2019 had lending of $10.1bil and NAB have committed to reaching $55 billion by 2025.
- The Queensland Treasury Corporation has issued $2 billion in green bonds to fund green projects and assets that will support Queensland's transition to a low-carbon and climate-resilient economy.
- The CEFC is a significant investor in emissions reduction projects across Australian infrastructure, including in the MIRA Australian infrastructure platform, targeting lower carbon emissions and improved energy efficiency in airports, electricity, port, rail and water. Together with the IFM Australia Infrastructure Fund, CEFC finance is supporting emissions reduction in key assets operated by Ausgrid, the Melbourne, Brisbane and Northern Territory airports, NSW and Queensland ports and Melbourne's Southern Cross railway station.

PERSPECTIVE: PRIVATE CAPITAL

What institutional investors look for and how to partner with private capital.

Attributes of the investment

- Scale: Investors seek both small and larger projects
- Size: For an institutional investor a small project may be around $50 million and a large project could amount to several billions of dollars

Type of investment

- Debt is the cheapest way to finance a project
- For infrastructure equity investors, risk is transferred to the investor

Risk and Return

- Capital is seeking infrastructure investments
- Return profile: competitive returns in line with industry benchmarks, investment return needs to be commensurate with the level of risk borne by the investor

Additional considerations

- Must be able to capture and report on relevant sustainability and green metrics/targets

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QUESTIONS