CFSIL Responsible Investment Policy

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1. Purpose and scope

The purpose of this Responsible Investment Policy (RI Policy) is to guide CFSIL in its capacities as Responsible Entity (RE) and IDPS operator on its approach to ESG and Climate Risks and opportunities as well as its active ownership activities. This policy applies to all Schemes for which CFSIL is the RE as well as to the IDPS Services for which CFSIL is the IDPS operator.

The policy gives consideration to the ASIC and FSC regulatory requirements for CFSIL as an RE and IDPS operator. A review of this Policy is conducted periodically to ensure the Policy remains current. The Policy will also be reviewed as a result of all or any of the following:

- Changes to the size, business mix and complexity of the CFSIL's business operations,
- Changes to the external environment within which the CFSIL operates,
- Changes to ASIC and FSC requirements, and
- Relevant changes to the CFSIL Investment Governance Framework (IGF).

2. Policy statement

The RI Policy outlines the following:

- Defining Environmental, Social, Governance, Climate Risks;
- The beliefs and principles to which CFSIL manages these risks in both capacities (RE and IDPS operator);
- CFSIL's approach to implementing these principles in managing these risks;
- CFSIL's Voting Policy; and
- CFSIL's approach to Climate change, Modern Slavery and Diversity, Equity and Inclusion.

3. Defining Environmental, Social, Governance, Climate Risks

ESG and Climate change risks[1] are foreseeable risks of importance and materiality that have the potential to impact the value of investments. These risks and issues may be real or perceived, internal, or external, and a company may incur financial and reputational penalties from causing or being complicit in these risks.

3.1 Environmental

Environmental risks and issues include but are not limited to biodiversity and sustainable food systems, air and water pollution, deforestation, energy efficiency, circular economy and waste, water stress.

3.2 Social

Social risks and issues include but are not limited to human rights, labour standards, digital standards, indigenous and community rights, health safety and well-being, diversity, equity and inclusion, product safety and quality, responsible tax practices.

3.3 Governance

Governance risks and issues include but are not limited to board composition and structure, board dynamics and culture, executive remuneration, investor protection and rights, anti-competitive behaviour, bribery and corruption.

3.4 Climate change

Climate change poses a significant risk to our environment, economy and society. Climate Risks include:

- Physical risk includes risks arising from the direct impact of climate change on our physical environment – through loss of resource availability and biodiversity, supply chain disruptions or damage to assets from severe weather events such as storms, floods, fires, droughts, and extreme wind and rain events, as well as rising global average temperatures, rising sea levels and carbonisation of the ocean; and,
- Transition risk includes risks arising from the decarbonisation of the economy, such as the impact of policy/regulatory changes (carbon pricing, subsidies, etc.), technological disruption (the move to renewables, electric vehicles, etc.) and societal pressure and behaviour.

Both types of risk may affect firms' revenues and expenses, asset and liability values, and/or availability and cost of capital.

Poor management of ESG and Climate Risks can result in financial losses, litigation liabilities and the devaluation of tangible and intangible assets, potentially

[1] As noted in FSC Guidance note 45

impacting member outcomes, shareholder value and increasing the volatility of returns.

4. Beliefs and Principles of Managing ESG, Climate Risks

4.1 CFSIL Responsible Investment beliefs

The Principles of Responsible Investment (PRI) defines Responsible Investment as a strategy and practice to incorporate ESG factors in investment decisions and active ownership. CFSIL believes that:

- Robust management of ESG and climate risks improves sustainable investment outcomes;
- Climate change is a financial risk that will have economic and social impact and needs to be managed; and
- Active ownership leads to better long term returns for shareholders.

CFSIL's responsible Investment beliefs guide the RI Policy. This Policy is expected to evolve with improvement in the understanding and measurement of ESG and Climate Risks.

4.2 Principles of Responsible Investment (PRI)

The PRI defines Responsible Investment as a strategy and practice to incorporate ESG factors in investment decisions and active ownership.

CFS is a signatory to the UN-Endorsed PRI and commits to be below stated Principle:

- We will incorporate ESG issues into investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the Principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the Principles.
- We will each report on our activities and progress towards implementing the Principles.

5. ESG and Climate Risks approach

The risk management approach taken by CFSIL enables it to give adequate consideration to ESG and Climate Risks alongside other risks such as market, inflation, legal, liquidity risks. It also ensures disclosure and transparency of these risks to unitholders. The approach acknowledges that many unitholders have different values, preferences and attitudes and consider it's important to understand them. Periodically CFSIL surveys members to ensure management keeps up to date with what's important to them.

5.1 ESG integration

CFSIL in its RE capacity focuses to integrate ESG risks in its investment process. At the appointment of investment managers across asset classes including fixed interest, equities, property and infrastructure, management conducts a responsible investment due diligence that includes review of resources dedicated to responsible investment, incorporation of ESG risks in investment process, managers approach to active ownership, climate change, modern slavery and diversity equity and inclusion. The due diligence provides an understanding of the level of integration of ESG risks by Investment managers. In an ideal scenario, preference would be given to those investment managers that have robust processes to integrate ESG and climate risks in investment decision making. CFSIL may choose to manage or mitigate the ESG and Climate Risks found in a portfolio in a number of ways, over various time periods, at the discretion of the Chief Investment Officer. Such management and mitigation actions may include, but are not limited to:

- Engaging with the relevant appointed investment manager;
- Amending the investment guidelines, investment objectives and/or benchmark as set out in the IMA;
- Engaging with the investee company (through PRI Collaboration Platform, investment manager or third-party service provider);
- Advocating for change through various ESG and climate-related associations and industry bodies; and
- Applying CFSIL Exclusions framework.

6. Climate change

Climate science strongly links the warming of the climate to significant increases in the levels of greenhouse gas emissions in the atmosphere. The latest Intergovernmental Panel on Climate Change Assessment Report 6 (IPCC AR6), provides evidence that the increase in global surface temperature has been contributed to by human activity. The transitional and physical risks due to climate change is expected to impact portfolio risk and returns across asset classes.

As a long term investor and fiduciary of customer portfolios, CFSIL in its RE capacity takes the following approach to address Climate change, the risks and opportunities that arise from it.

6.1 Approach

- CFSIL believes Climate is a financial risk that will have economic and social impact and needs to be managed.
- A commitment by CFSIL is not expected to be concessionary or at odds with stated portfolio risk return objectives.
- The approach recognises that transition risk exists, including change in policy and regulation, technological disruption and litigation. However the breadth, magnitude and time horizon of the risk is uncertain and needs to be managed.
- The approach recognises that physical risk exists. However, there is uncertainty on the distribution of these risks and impact on portfolio assets. Companies need to adapt and investors need to manage the risks.
- CFSIL believes that engagement is the most important mechanism to achieve real world emissions reduction.
- The implementation of a Climate action plan will not be linear due to the breadth of Investment portfolios. However, transparency will provide accountability of progress.

6.2 Climate Commitment for CFSIL in its RE capacity

Target for 2050:

- To commit to transition CFSIL investment portfolios to net zero Greenhouse Gas emissions by 2050.
- The target aligns CFSIL to the Paris Agreement goal of limiting global temperature increase to well below 2 degrees Celsius.

Target for 2030:

- 30% reduction in Greenhouse Gas emissions from 2019 level.
- Review of 2030 target on a regular basis with improvement in data and change in assets managed by CFSIL.
- Management to monitor and disclose progress annually to demonstrate progress towards 2030 target.

6.3 CFSIL as IDPS operator

The Climate commitment is not applicable for CFSIL as an IDPS operator. CFS wrap products include Managed Investment schemes (MIS) that are held externally and do not have a mandate structure. CFSIL buys units in each scheme and hence does not have the transparency and the ability to implement the climate commitment in the MIS.

7. Proxy Voting and Engagement Policy

CFSIL in its RE and IDPS Operator capacities is subject to regulatory requirements in relation to proxy voting.

7.1 CFSIL as IDPS operator

CFSIL falls under two categories under the FSC Standard 13:

1. Unitholder has the responsibility for investment selection and retains voting rights; and
2. ‘Fund of funds’ investment products.

The above categories are exempt from the requirements of the standard. Under category (2) voting rights are held by the underlying investment managers and are exercised in accordance with the investment manager’s proxy voting policy.

CFSIL as an IDPS operator complies with ASIC RG 148 obligations by having the following voting procedures and practices:

(a) IDPS operator's voting practices on MIS resolutions:

The IDPS voting procedures for MIS are as follows:

- CFSIL will not participate in voting unless instructed by the investor or the adviser (on behalf of the investor) in writing or by email;
- If CFSIL has received a valid instruction to vote, CFSIL will complete the documentation and vote on the holding for which instructions have been received;
- CFSIL will only provide information on voting resolutions to advisers and/or investors who have requested that information;
- CFSIL will provide all relevant information on the vote to the adviser and/or investor at no cost; and
- Standing instructions will not be accepted.

No fee will be charged to investors who exercise voting rights.

(b) IDPS operator's voting practices on listed securities:

Elections on voting resolutions are not accepted or administered by CFSIL in its capacity as IDPS operator for ASX listed securities except where the investor is a director of the company.

There are situations where CFSIL will be unable to vote as it cannot administer the instruction. This may include instances where elections cannot be made for individual accounts within pooled holdings.

7.2 CFSIL as RE

Exercising the shareholder right to vote on company resolutions is a key part of active ownership practice. It enables investors to explicitly manage governance risks, by expressing their view on the appointment of company directors, director remuneration, key strategic decisions, as well as raise or support shareholder resolutions on various issues deemed to be worthy of action beyond engagement (such as climate change). Like engagement, voting should be executed to maximise the long-term performance of a company and assist with risk management. A vote may be made For, Against, Abstain or do not vote for each resolution.

CFSIL adopts the following approach to proxy voting:

- CFSIL has mandated appointed investment managers to vote resolutions for Australian listed companies on the RE's behalf;
- CFSIL requires appointed investment managers voting on behalf of CFS as RE to have a Proxy Voting Policy and confirms that the manager has a policy in place every two years as part of the CFS operational due diligence process;
- The appointed investment managers may use a third-party proxy adviser at their discretion;
- CFSIL engages a third-party proxy adviser to provide voting recommendations for non-Australian listed companies. CFSIL agrees with the providers' corporate governance principles and voting guidelines. The final right to vote for most non-Australian listed companies stays with CFSIL although in some instances CFSIL has mandated the appointed Investment manager to vote resolutions for non-Australian listed companies;
- CFSIL is unable to execute the voting rights on shares that maybe on loan due to a securities lending program. There may be other instances where voting rights may not be executed, for example share blocking or where a Power of Attorney may not be in place.
- CSFIL publishes voting records on its website to provide transparency to its members.

7.3 RE Engagement

The aim of engagement is to provide feedback and signal concerns to investee companies about factors affecting long-term company performance. These factors may include discussions on corporate strategy, governance practices, board accountability, exposure to various risks and risk management. CFSIL engages with investee companies on issues of investment importance as per the following:

- CFSIL has engaged a third party provider to engage with non Australian listed investee companies on factors relevant to each business on its behalf. CFSIL believes in the power of collaborative engagement to influence investee companies. The engagement provider has a structured plan for engagement and some of the priority themes in focus include climate change, human and labor rights issues in the supply chain of companies, human capital management that includes diversity, equity and inclusion and company board effectiveness.

- In addition to the third party provider, most Investment managers appointed by CFSIL also regularly engage with investee companies on a variety of ESG related issues.
- CFSIL may also direct investment managers to engage and/or collaborate on issues relating to, but not limited to climate change, modern slavery, diversity, equity and inclusion, cybersecurity.
- CFS believes in the power of collaboration especially on systemic global issues. It is member and/or signatory to Principles of Responsible Investment (PRI), Investor Group on Climate Change (IGCC), Climate Action 100+, Responsible Investment Association Australasia (RIAA), Investors Against Slavery and trafficking Asia Pacific (IAST) and 40:40 Vision.
- As a PRI signatory CFSIL also uses the PRI's Collaboration Platform, a global online tool for collaborative initiatives. It provides PRI signatories with a private forum to pool resources, share information, enhance influence and engage with companies, policymakers and other actors in the investment value chain on ESG issues across asset classes, sectors and regions.

8. Exclusions Framework

8.1 CFSIL as IDPS operator

The exclusions framework is not applicable for CFSIL as an IDPS operator. CFS wrap products include Managed Investment schemes (MIS) that are held externally and do not have a mandate structure. CFSIL buys units in each scheme and hence does not have the transparency and the ability to exclude securities in the MIS to apply the Exclusion framework.

8.2 CFSIL as RE

CFSIL will not take a position on, or make judgement of, an ethical or socially responsible issue, unless it is fundamental to the nature of the investment strategy i.e. Ethical/Sustainable option. However, there may be some ESG risks, ethical issues and circumstances in which CFSIL believes it is appropriate to act upon an ethical or socially responsible issue with a negative screen or exclusion.

Any decisions taken by CFSIL, including exclusions, will give priority to the best interest of unitholders and consider whether:

- the investment objectives of the Scheme can still be met; and
- the Scheme will remain adequately diversified and liquid.

The Chief Investment Officer is responsible for making recommendations to the CFSIL Board on exclusions having considered the following in relation to the activities of the companies or sectors:

- Do the activities breach international treaties (e.g. those agreed through the UN or World Bank)?
- Are the activities illegal?
- Is the Australian Government aiming to reduce or restrict the activities?

Other additional subjective criteria may include:

- Is engagement with the company or sector likely to be effective in reducing the involvement of the company or sector in the activities?
- Are CFSIL's unitholders requesting exclusion of a company or sector due to involvement in the activities?
- Will CFSIL's reputation risk be increased if the relevant company or sector is not excluded?
- Are other funds excluding companies and sectors for involvement in the activities?
- Do the activities cause substantial or irreparable harm to society?

Exclusions would include, but not limited to, equity and/or debt of specific companies and/or companies included in specific sectors. The decision will be implemented by an amendment to the IMA for each investment manager. CFSIL informs managers annually of its intent regarding exclusions and provides a comprehensive list of all issuers with ISIN codes to follow the direction. Exclusions are monitored by the Investment Review Services team as part of the process of monitoring compliance with IMAs.

CFSIL has two investment exclusions in place as at the date of this Policy. These are an exclusion against controversial weapons producers, and an exclusion against tobacco manufacturers. Details provided in Appendix A. The two exclusions are applied across debt and equity issued by the companies.

9. Modern Slavery

Modern slavery covers a range of exploitative practices occurring in various forms such as slavery, child labour, servitude, forced and compulsory labour and human trafficking. It is any instance where the individual concerned does not have the ability to walk away from the situation.

CFS opposes any form of slavery and is committed to minimising the risk of it occurring in its own business operations and supply chain. This policy only addresses Modern Slavery in relation to CFSIL Investments (Investment managers and investee companies).

9.1 Modern Slavery framework

The purpose of the Modern Slavery framework is to identify, assess, mitigate and test the effectiveness of actions with regards to any Modern slavery risks in Investment portfolios only. The framework includes:

- Portfolio analysis. This includes assessing modern slavery risks in the listed equity and debt holdings across all CFSIL portfolios, where possible;
- Investment manager engagement to ensure investment managers are aware of the risks and incorporate, identify, assess and mitigate these risks in their investment process. Special emphasis is on non-Australian equity managers that are not exposed to Australian Modern Slavery legislation;
- Collaborative engagement via Investors Against Slavery and Trafficking (IAST), endorser of the PRI Advance initiative and regular attendance at the Responsible Investment Association of Australasia (RIAA) Human Rights Working Group; and
- Collaborative engagement via the CFS appointed third party engagement provider as part of its human rights and human capital management thematic engagement.

CFS Group will submit an annual Modern Slavery report to the Attorney – General's Department. This will include Modern Slavery risk in Investments (Investment manager operations and portfolio holdings).

10. Diversity, Equity, and Inclusion

Diversity, equity, and inclusion (DEI) have a clear basis in human rights that is reflected in the Universal Declaration of human rights as well as in the International Labor Organisation (ILO) standards. Globally governments are introducing legislation, financial regulators are pursuing disclosures around DEI. According to PRI2, studies clearly state that DEI and financial performance of companies are related. Besides, strong DEI within a company can positively effect decision making, levels of employee engagement, reputation amongst stakeholders, innovations, and access to untapped markets.

CFS is aligned with the PRI and is actively engaging with companies on DEI through its third party engagement provider. The engagement provider is asking companies to develop a strategy and action plan to achieve proportionate gender and ethnic representation at all levels. It is also challenging companies to expand their consideration of diversity metrics to include representation and equity for the LGBTQ+ community and differently abled. Besides, CFS is also a signatory to the 40:40 Vision, a collaborative initiative seeking to achieve gender balance in executive leadership across all ASX 300 companies by 2030. 40:40 stands for 40% women, 40% men and 20% as any gender.

11. Definitions

In this policy, defined terms are capitalised. Those terms have the meaning given to them below.

ASIC	Australian Securities and Investment Commission
CFSIL	Colonial First State Investments Limited
ESG	Environment, Social and Governance
FSC	Financial Services Council
IDPS	Investor Directed Portfolio Service
IDPS Operator	CFSIL when acting in its capacity as Operator of one or more IDPSs
IGF	Investment Governance Framework

[2] PRI Diversity Equity & Inclusion: Key action areas for Investors

MIS	Managed Investment Schemes
PRI	Principles of Responsible Investment
RE	Responsible Entity of an MIS
RI	Responsible Investment

12. Policy Governance

Approver	CFSIL Board
Owner	Chief Investment Officer
Review Cycle	Periodic

13. Relevant Documents

Related internal documents	• CFSIL Board Charter • CFSIL Risk Appetite Statement • CFSIL Risk Management Framework • CFSIL Investment Governance Framework
External sources of obligations	• ASIC Class Order 13/763 • ASIC RG 148 • FSC Standard 13 Voting Policy

Appendix A: Exclusions

Controversial Weapons

Controversial weapons are weapons that indiscriminately kill or disproportionately harm people relative to military necessity (as defined by international humanitarian law). Through normal use these weapons may kill civilians as well as military targets (including after conflict has ended) thus their use is prohibited and breaches all global conventions on human rights.

Controversial weapons include: chemical and biological weapons, cluster munitions, antipersonnel landmines, depleted uranium ammunition, non-detectable fragments, incendiary weapons and blinding lasers.

Controversial Weapons are subject to international laws and conventions that prohibit their manufacture, use, and control their financing. These conventions include the Inhuman Weapons Convention, the Convention on Certain Conventional Weapons 2001, the Oslo Convention on Cluster Munitions 2008, the Ottawa Convention on Anti-personnel Mines 1999, the Chemical Weapons Convention 1993, the Biological Weapons Convention 1972, and the Nuclear Non-Proliferation Treaty 1968.

CFSIL does not invest in securities issued by companies that produce controversial weapons.

Tobacco

Tobacco production causes many environmental, social and economic risks. The tobacco industry is a large employer of child labour and contributor to modern slavery through bonded labour.

Environmental damage caused by the tobacco industry include deforestation, soil degradation by land clearing and land and water pollution due the extensive use of pesticides and chemicals in the agricultural and manufacturing process. From a social perspective, the product is a highly addictive drug and kills. There is no safe level of use or exposure as death, disease and health issues arise from primary and secondary consumption.

Investment in tobacco contravenes three major international treaties, conventions and sets of global norms principles. These include the UN Global Compact, the UN Guiding Principles on Business and Human Rights and the World Health Organisation Framework Convention on Tobacco Control.

CFSIL does not invest in securities issued by companies that produce tobacco or manufacture tobacco related products.