Environmental, Social and Governance Policy

September 2023

Acknowledgement of Country

The CEFC acknowledges the Traditional Owners and Custodians of this land, and we pay our respects to all Elders, past and present. We recognise their continuing connections to country, water and culture.

The CEFC is an experienced specialist investor with a deep sense of purpose: we're Australia's 'green bank', investing in our transition to net zero emissions by 2050. With access to more than $30 billion from the Australian Government, we're backing economy-wide decarbonisation, from renewable energy and natural capital to energy efficiency, alternative fuels and low carbon materials.

In parallel, we're focused on transforming our energy grid, backing sustainable housing and supporting the growth of our climate tech innovators. We collaborate with co-investors, industry and Government, recognising the urgency of the decarbonisation task. We also invest with commercial rigour, aiming to deliver a positive return across our portfolio.

The CEFC has twin objectives under the *Clean Energy Finance Corporation Act* (CEFC Act), to facilitate:

- **increased flows of finance into the clean energy sector; and**
- **the achievement of Australia's greenhouse gas emissions reduction targets.**

ESG approach

The CEFC embeds Environmental, Social and Governance (ESG) considerations across all our activities, including investment and portfolio management, as well as CEFC operations. This approach is outlined in this Policy.

As a specialist investor we play an active role in contributing to the achievement of Australia's national goal of net zero emission by 2050. CEFC investments must comply with the CEFC Act, supporting eligible technologies in renewable energy generation, energy efficiency and low emissions solutions.

The CEFC Investment Mandate Direction 2023 further requires the CEFC to develop policies regarding ESG matters, First Nations investment screening procedures and to take into account environmental and social impact considerations in assessing investment decisions.

The CEFC is committed to a well-governed investment approach that incorporates ESG objectives which enhance sustainable and long-term risk adjusted returns. This is reflected in our integrated approach to ESG, to deliver against our emissions reduction objectives while amplifying our potential market impact.

This is achieved through proactive engagement with counterparties, managers, financiers and other stakeholders on material ESG issues, in parallel with appropriate investment risk mitigation.

The ESG Policy applies to all CEFC investments including:

- General Portfolio
- Rewiring the Nation Fund
- Specialised Investment Funds.

ESG Policy requirements and framework

This ESG Policy has been developed in accordance with the overarching CEFC investment and governance framework and has benefited from reference to industry bodies, peers and regulatory guidance.

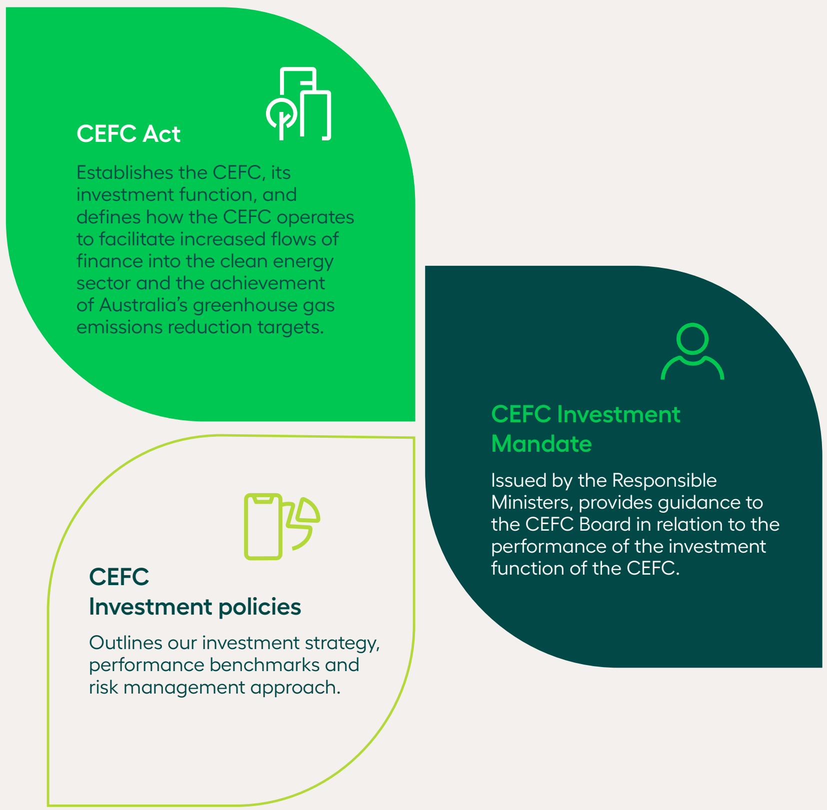
The Policy (Figure 1) also addresses the requirements relating to ESG priorities and policies in the CEFC Investment Mandate.

The ESG Policy articulates our approach to ESG, with risks and opportunities adequately considered and managed as part of an integrated approach to the overall CEFC investment process and ongoing corporate activities. It complements existing CEFC policies and guidelines, including:

- Investment policies
- Risk Management Framework and Risk Appetite Statements
- Code of Conduct and Ethics
- Conflicts of Interest Policy
- Work Health and Safety Policy
- Sexual Harassment Policy
- Modern Slavery Policy
- Reconciliation Action Plan
- First Nations investment screening procedure
- Workplace Bullying, Discrimination and Harassment Policy
- Anti-Bribery and Corruption Policy.

These documents are all available via: **cefc.com.au**.

Figure 1: CEFC investment and governance framework



Policy responsibility and accountability

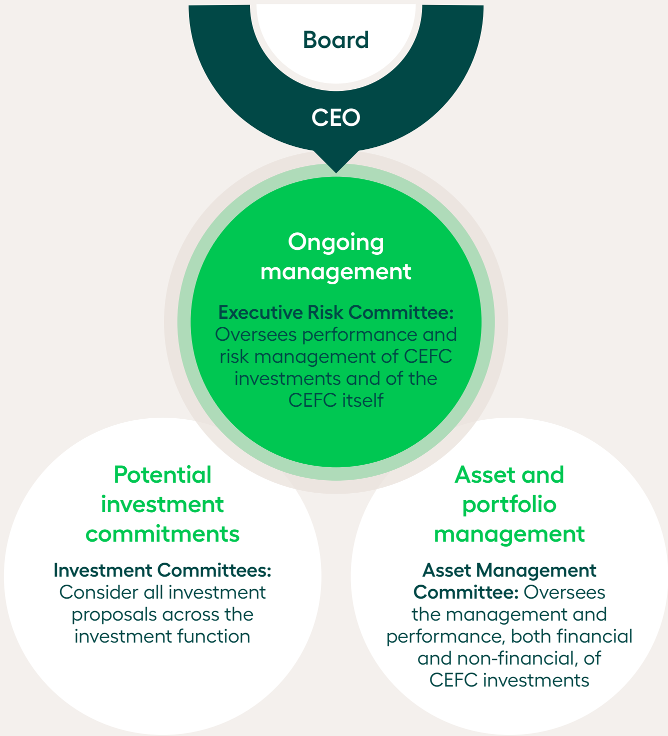
The CEFC Board is responsible for approving this Policy and overseeing the continued integration of ESG risks and opportunities in our established policies and guidelines. ESG performance is reported to the CEFC Board on a quarterly basis to assist in their governance and oversight.

The CEFC Chief Executive Officer has responsibility for the day-to-day management of the CEFC and adherence with the ESG Policy, assisted by the Executive Team and committees. Refer Figure 2.

The CEFC Sustainability team assists the committees in embedding the ESG Policy across CEFC activities, collaborating across the organisation. This includes working with:

- **Investment, Rewiring the Nation, Risk and Compliance teams:** to identify ESG risks and opportunities as part of the transaction origination and execution processes
- **Portfolio Management:** to monitor investments for ESG risks and opportunities, whether previously identified, new or emerging
- **Corporate functions:** to support the delivery of ESG commitments in the organisation's operations.

Figure 2: CEFC committees and responsibilities



Material ESG Factors covered by this Policy

ESG covers a broad range of factors, not all of which are applicable to the CEFC given its objectives and nature as a Corporate Commonwealth Entity.

Reflecting good corporate governance, the CEFC periodically reviews and identifies the most relevant and material ESG focus areas. These take into account CEFC strategic investment priorities, Investment Mandate directions as well as best practice and approaches adopted by global and domestic peers.

Material ESG Factors

The seven Material ESG Factors outlined in this Policy have been identified as material risks and/or opportunities for the CEFC as they relate to our investments and/or corporate activities, and the provisions of the CEFC Investment Mandate Direction 2023. Refer Figure 3 and Appendix A.

These Material ESG Factors are expected to be actively considered across the investment lifecycle and/or by the way the CEFC conducts its diverse corporate activities, via a two-step process:

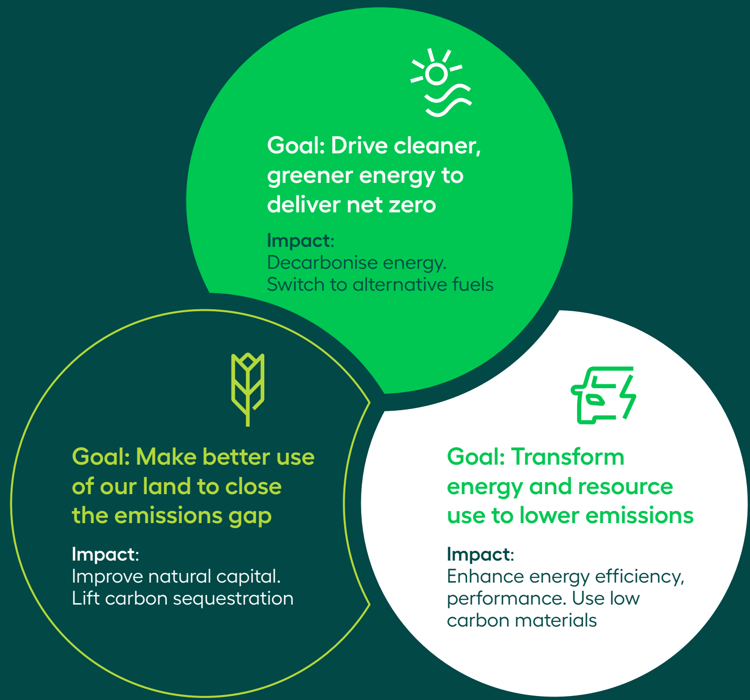
1. Identify activities where we have the most material ESG risk and undertake measures to minimise potential negative impact
2. Identify activities where we can positively impact target ESG outcomes.

The CEFC tracks its performance against the Material ESG Factors. This includes benefits in addition to the achievement of specific decarbonisation outcomes referred to in the CEFC Corporate Plan, available at cefc.com.au.

Figure 3: Material ESG Factors

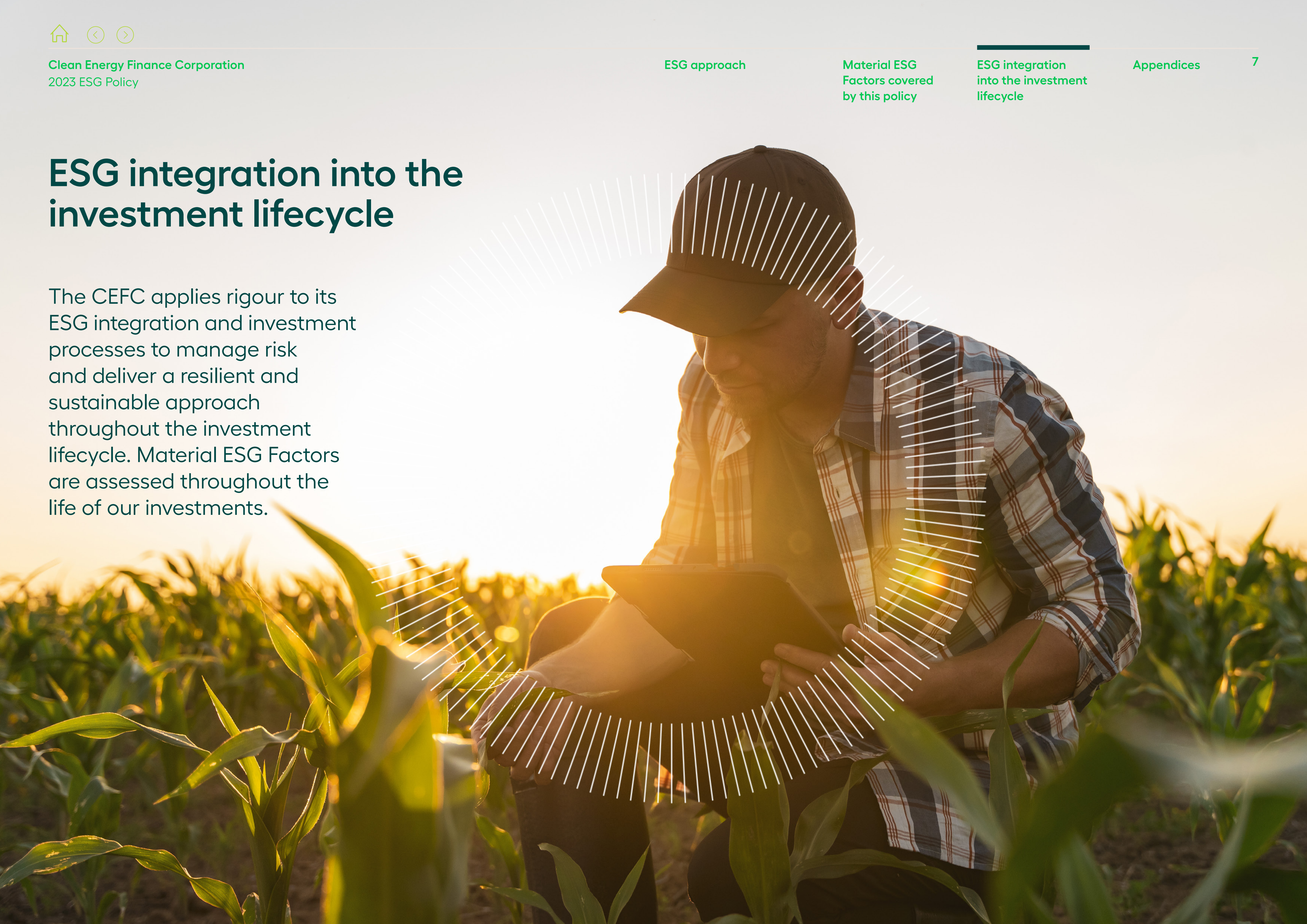
	Material ESG Factors	Material ESG risks and opportunities
E	Decarbonisation	
	Climate risk disclosures	
	Leadership	
	Nature	– Ecological impact – Positive impact on nature and biodiversity
S	Equity, diversity, inclusion and labour practices	– Equity and opportunities – Diversity and inclusion – Labour practices and employee health and safety
	Community	– Social licence – First Nations – Local procurement and supply chains – Jobs – Broader economic benefit
G	Business conduct and ethics	– Modern slavery – Anti-corruption and competitive behaviour
	Investment committees	– Suitably skilled with independent decision making

Figure 4: Strategic priorities



ESG integration into the investment lifecycle

The CEFC applies rigour to its ESG integration and investment processes to manage risk and deliver a resilient and sustainable approach throughout the investment lifecycle. Material ESG Factors are assessed throughout the life of our investments.



1. Investment Focus

The CEFC investment strategy recognises the urgent nature of the emissions challenge. The strategy is driven by our important role in anticipating and responding to market conditions, developing new markets, building investor confidence and developing tailored and innovative investment products to drive lower emissions.

Equally, we recognise that our investment activities are just the start of what is required – while the size of the investment requirement is seismic, so too are the opportunities.

To comply with the CEFC Act, CEFC investments must be in clean energy technologies, comprised of renewable energy, energy efficient and/or low emissions technologies.

The CEFC Investment Mandate Direction 2023 specifies focus areas associated with these clean energy technologies, including:

Rewiring the Nation Fund

Investments expected to include high voltage transmission, long duration grid storage and electricity distribution network infrastructure

Household Energy Upgrades Fund

Providing discounted consumer finance to increase sustainability across the housing sector

Powering Australia Technology Fund

Supporting the growth and expansion of climate tech projects, businesses and funds

Clean Energy Innovation Fund

Australia's largest dedicated climate tech venture capital investor

Advancing Hydrogen Fund

Backing the growth of a clean, innovative, safe and competitive Australian hydrogen industry

2. Investment approach

We maintain an end-to-end process from investment origination selection, to execution, ongoing management and exit, in accordance with the CEFC Investment Policies (Figure 5).

As the first step of our preliminary screening process, the CEFC undertakes negative screening of potential investments against our exclusions list. Refer Appendix B.

We also initiate screening to identify reputational risks that may arise from dealing with the proposed counterparties. Reputational risks may arise due to past behaviours with regards to matters such as work, health and safety, workplace behaviour or governance, environmental audits and the conduct of officers and/or shareholders. Reputational risk due to a counterparty's previous actions requires satisfactory evidence that appropriate steps have been taken to prevent these issues arising again before the CEFC will progress due diligence.

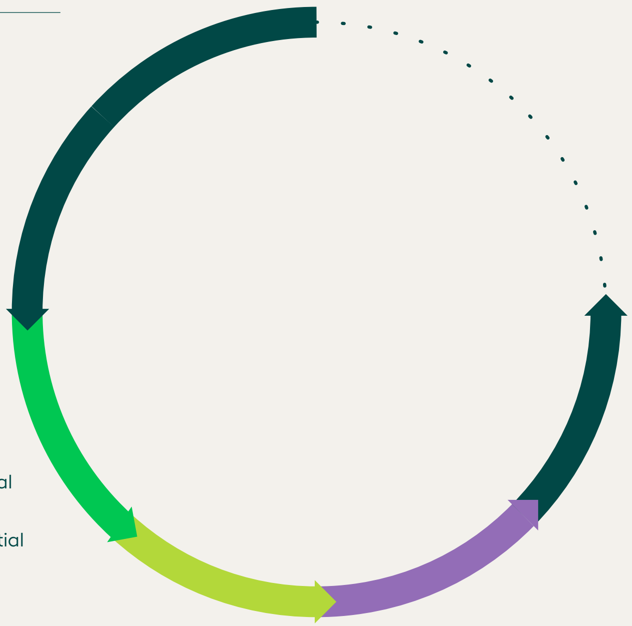
For investments that pass the preliminary screening process, detailed due diligence is conducted against the relevant Material ESG Factors.

Risks and opportunities are identified and quantified (where possible) as part of the investment screening process. As an active manager of our investment portfolio, we monitor the performance of individual investments and engage with relevant stakeholders to track anticipated risks and opportunities, including the implementation of mitigation measures where appropriate.

We seek to leverage the expertise gained through our investments to inform future investments and their potential to realise ESG-related outcomes.

We also seek to demonstrate leadership through the dissemination of learnings and outcomes with stakeholders and the market. This is achieved through active engagement and collaboration with investors, industry and market participants, and the dissemination of information and insights based on our market experience. Refer Section 4.

Figure 5: ESG integration in the investment lifecycle



Preliminary screening

Confirm fit with the CEFC Act and Investment Mandate

Test for exclusions

Conduct reputational risk screening

Detailed screening

Identify potential ESG risks

Quantify potential positive ESG impacts

Execution

Set counterparty obligations to manage relevant risks and deliver impact

Confirm required reporting to monitor relevant risks and measure impact with counterparty

Ongoing management

Track performance against ESG risks and impact

Pursue active engagement and influence with relevant stakeholders

Share knowledge and collaborate with investors, industry and market participants

Exit

Gather insights to inform consideration of potential new CEFC investments

Disseminate learnings with other investors, industry and market participants, including via industry reports, case studies and insights

3. External investment parties and co-investment opportunities

The CEFC works with banks, non-bank lenders and external fund managers to efficiently and effectively deploy its finance to market segments beyond its reach to deliver clean energy outcomes for specific assets, technologies and/or sectors.

These third parties are tasked with deploying the funds of the CEFC via externally managed investments and aggregation platforms, pursuant to clear guidance and controls set by the CEFC. Examples include:

- Bank programs to deliver asset finance to SMEs and individual consumers
- Wholesale funds managed by third party fund managers.

CEFC ESG Policy considerations are integrated into investment commitments with co-financiers. The CEFC considers Material ESG Factors during the selection, assessment, appointment, management and review of the performance of co-financiers. This extends from consideration of governance and investment approaches, to performance and outlook. We also consider processes regarding risk management, investment selection, portfolio construction and asset or credit management. This framework aligns our work with co-financiers with the ESG Policy.

4. Collaboration, knowledge sharing and influencing

The purpose of the collaboration, knowledge sharing and influencing work of the CEFC is to use the experience gained from our investments to demonstrate outcomes and drive meaningful impact across the broader market. This approach ensures a positive contribution to the clean energy sector, as efficiently as possible.

To accomplish this, the CEFC seeks to:

- Encourage industry, government, investors and investment managers to replicate or build upon our investments. We want to demonstrate the dual outcomes of positive ESG results and sound investment returns, to drive market change
- Raise awareness through knowledge sharing and dissemination activities such as investment insights, presentations, discussion forums and targeted research reports for industry
- Work with our counterparties, industry bodies and government agencies to positively influence sector specific and industry-wide policies and performance standards
- Influence industry participants in relation to their ESG governance, policies, practices and management through advocacy initiatives and participation on advisory committees and collaborative engagement
- Assist the finance industry to realign investments to facilitate the effective and efficient use of capital to support greater ESG outcomes.

The CEFC supports collaboration with industry across the economy, as well as academia, think tanks, and government, as a vital step to develop the expertise and experience to influence the financial services sector and support greater social, environmental and economic outcomes for Australia.

The CEFC is a certified carbon neutral organisation under the Australian Government Climate Active Carbon Neutral Standard, and is involved in a broad range of industry initiatives.

The CEFC is involved in the following collaborative initiatives:

Australian Jet Zero Council

Climate Bonds Initiative

MECLA Materials and Embodied Carbon Leaders Alliance

Australian Sustainable Finance Institute

Climate Active Network Member

5. Disclosure and Transparency

The CEFC is committed to transparency and disclosure in monitoring and reporting through internal and external reporting (including as required by the CEFC Act, and other legislation such as the *Public Governance, Performance and Accountability Act 2013*).

The CEFC Annual Report details investment commitments, realised investments, and any exits or cancellations made in the financial year. Further, all new investment commitments are reported quarterly and are available on the CEFC website within one month of the end of the quarter. Refer **cefc.com.au**.

In line with Australian and international best practice, the CEFC is also committed to reporting the performance of its portfolio and approach to investment against its Material ESG Factors. The CEFC includes ESG reporting (of both investments and CEFC operations) in the CEFC Annual Report.

Appendix A: Material ESG Factors

				Investment	Corporate
Environmental	Decarbonisation		The CEFC is committed to achieving net zero Scope 1 and 2 emissions by 2030, with annual progress reported. We are also working across our value chain to identify opportunities to reduce Scope 3 emissions.		●
			– Electricity sector – increased MW capacity (generation, storage, transmission transfer). – Non-electricity sector – tCO_2-e avoided or sequestered. – Investment in climate solutions.	●	
	Leadership		The CEFC contributes to industry initiatives including advocacy, contributing to policy and/or standards development/implementation, market reports and supporting industry bodies.		●
			The CEFC commits to investment initiatives with demonstrable industry influence. These could include demonstration projects, first-of-a-kind operations, research reports, case studies, and other collaboration instruments disseminated to market.	●	
	Climate risk disclosure		The CEFC evaluates, manages and discloses its climate related financial risks.		●
			Counterparties are screened for their climate-related risk evaluation, management and disclosure.	●	
	Nature	Ecological impact	Counterparties are screened for: 1. Compliance with relevant environmental law, and no unaddressed serial or material offences 2. Ongoing performance monitoring.	●	
		Positive impact on nature and biodiversity	Investments that actively work to halt or reverse the loss of nature and biodiversity, including the implementation of nature-based solutions.	●	
Governance	Business Conduct and Ethics	Anti-corruption and competitive behaviour	Counterparties are screened for systemic/material offences regarding anti-corruption, anti-bribery and competition laws. This will include actions, activities, and employee behaviour.	●	
		Modern Slavery	The CEFC implements Modern Slavery Act policy and associated practices and procedures are applied to both investments and procurement processes. The CEFC implements Modern Slavery Act risk assessments, due diligence, and the potential application of mitigation as a condition to entering into procurement contracts.		●
			The CEFC implements: – Modern Slavery Act risk assessments, due diligence, and the potential application of mitigation prior to investing – Ongoing monitoring of direct counterparties and material indirect counterparties, where assessed as material or higher risk.	●	
	Investment Committees	Suitably skilled with independent decision making	The CEFC has appropriate investment related committees, with suitably qualified members, ensuring informed, considered and independent decision-making processes.		●

				Investment	Corporate
Social	Equity, diversity, and labour practices	Diversity equity and inclusion	Counterparties screened for their commitment to diverse and equal opportunities.	●	
			The CEFC ensures its hiring and promotion practices embrace the building of a diverse and inclusive workforce that reflects the makeup of local talent pools, including equitable access, opportunity, and advancement for all.		●
		Labour practice and employee health and safety	The CEFC aims to: 1. Create and maintain a safe and healthy workplace environment that is free from physical and psychosocial hazards 2. Attract, develop and retain a highly skilled workforce who are fairly remunerated. 3. Execute our positive duty to prevent systemic sexual harassment, sex-based harassment and discrimination, hostile work environments and victimisation		●
			Counterparties are screened for: 1. Serial or material offences in work safety policies 2. Ongoing performance monitoring	●	
	Community	First Nations	The CEFC is committed to progress against its Reconciliation Action Plan.		●
			Investments that avoid activity that undermines the culture and history of First Nations peoples, including impacts on local businesses and the environment. Counterparties should be committed to community engagement with First Nations peoples.	●	
			Investments with plans in place to deliver positive economic and/or cultural impacts to First Nations peoples.	●	
		Broader economic benefit	Investments that create an economic benefit to community.	●	
		Social licence	Counterparties are screened to ensure community engagement requirements are being met[1].	●	
			Investments that actively seek to secure positive outcomes for communities.	●	
		Local procurement and supply chain	Investments that actively work or commit to local procurement of goods and services and sustainability criteria.	●	
		Jobs	Investments committed to create, safeguard existing jobs or training/reskilling opportunities.	●	

[1] A best practice social licence and community engagement approach for Rewiring the Nation Fund investment screening is currently in development in collaboration with the Department of Climate Change, Energy, the Environment and Water and the Australian Energy Infrastructure Commissioner.

Minimum requirements
ESG opportunities

Appendix B: Exclusions list

As part of our investment process, the CEFC undertakes negative screening against the following industries and activities:

- Non-clean energy technologies and prohibited technologies^3
- Production and/or manufacture of tobacco products (including vaping products)
- Production and/or manufacture of controversial weapons and/or those prohibited under military weapons-related treaties and conventions ratified by Australia
- Criminal activity or reported criminal behaviour, where a counterparty cannot demonstrate with satisfactory evidence that appropriate steps have been taken to prevent these issues arising again. This includes but is not limited to:
  - Workplace health and safety practices
  - Corruption or bribery
  - Modern slavery or other human rights abuse
  - Animal cruelty
  - Environmental offences.

In accordance with the CEFC Investment Mandate, we also screen investments with the aim that the CEFC or its investments do not act in a way that is likely to cause damage to the Australian Government.

^3 Refer to sections 60 and 62 of the CEFC Act

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