# Environmental, Social and Governance Policy

November 2024

## 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 in Australia's green transition to net zero emissions by 2050. With access to more than $30 billion from the Australian Government, we work with co-investors, industry and government to drive economy-wide investment in decarbonisation.

We invest in renewable energy, energy efficiency and low emissions technologies via the CEFC General Portfolio, the Rewiring the Nation Fund and four Specialised Investment Funds: the Household Energy Upgrades Fund, the Powering Australia Technology Fund, the Advancing Hydrogen Fund and the Clean Energy Innovation Fund.

The CEFC has twin objectives under the *Clean Energy Finance Corporation Act 2012 (Cth)* (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 greenhouse gas reduction targets. CEFC investments must comply with the CEFC Act, supporting eligible clean energy technologies in renewable energy generation, energy efficiency and low emissions technologies.

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 that 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 those made through:**

- General Portfolio
- Rewiring the Nation Fund
- Household Energy Upgrades Fund
- Powering Australia Technology Fund
- Advancing Hydrogen Fund
- Clean Energy Innovation Fund

# ESG Policy requirements and framework

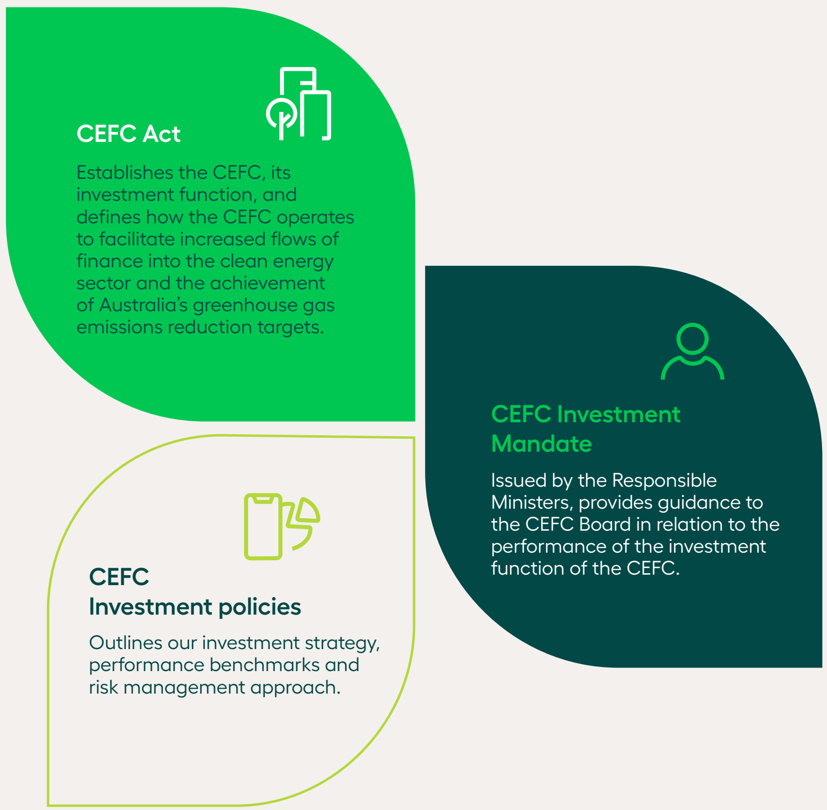
This ESG Policy has been developed in accordance with the CEFC Act, CEFC Investment Mandate and the overarching CEFC investment and governance framework and has benefited from reference to industry bodies, peers and evolving regulatory guidance.
Refer Figure 1.

The Policy articulates our approach to ESG, with risks and opportunities 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
- Fraud Control Policy.

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

**Figure 1: CEFC investment and governance framework**



# Policy responsibility and accountability

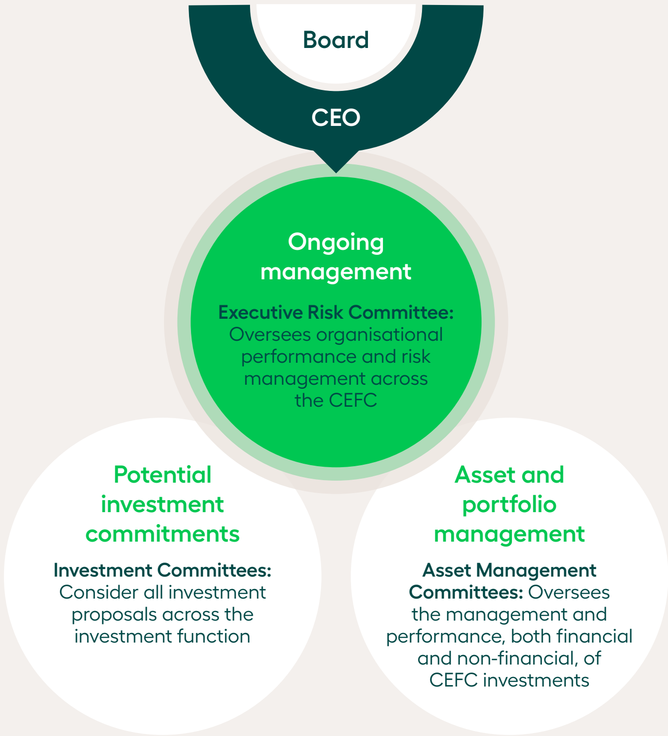
The CEFC Board is responsible for approving this Policy and overseeing the continued integration of ESG risks and opportunities in our established policies and guidelines. ESG performance is reported to the CEFC Board on a quarterly basis to assist in their governance and oversight.

The CEFC Chief Executive Officer has responsibility for the day-to-day management of the CEFC including 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 specific purpose as a Corporate Commonwealth Entity.

Reflecting good corporate governance, the CEFC reviews the policy and identifies the most relevant and material ESG focus areas, at least every two years. These reviews take into account the CEFC strategic investment priorities, updated CEFC Investment Mandate directions as well as best practice and approaches adopted by global and domestic peers. Refer Figures 3 and 4.

## Material ESG Factors

The eight 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 relevant 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 in the way the CEFC conducts its diverse corporate activities, via a two-step process:

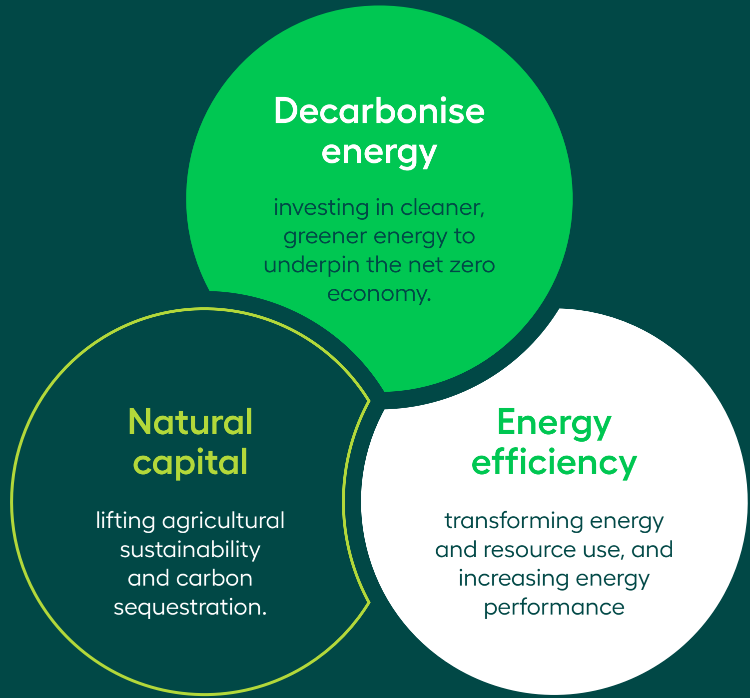
1. Identify activities where we have the most material ESG risk and undertake measures to minimise potential negative impact
2. Identify activities where we can positively impact target ESG outcomes.

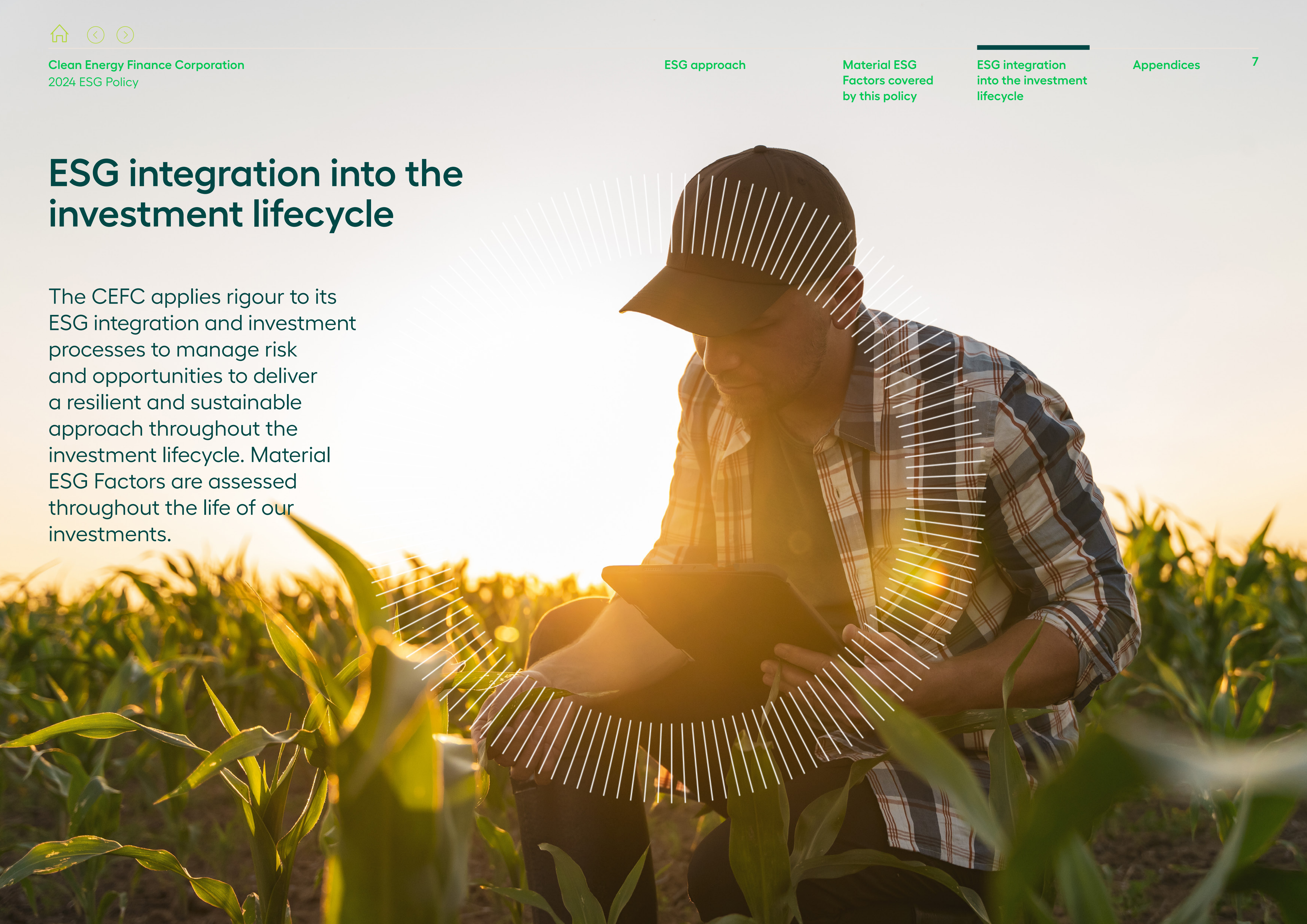
The CEFC tracks its performance against the Material ESG factors. This includes metrics in addition to the achievement of specific decarbonisation outcomes referred to in the CEFC Corporate Plan, available at **cefc.com.au**.

**Figure 3: Material ESG Factors**

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

**Figure 4: Strategic investment priorities**





# ESG integration into the investment lifecycle

The CEFC applies rigour to its ESG integration and investment processes to manage risk and opportunities to 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:

### General Portfolio

Includes renewables, storage, property, infrastructure, natural capital, electric vehicles, climate bonds and small-scale asset finance programs

### 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

### Advancing Hydrogen Fund

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

### Clean Energy Innovation Fund

Australia's largest dedicated climate tech venture capital investor

# 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 initiate screening to identify reputational risks that may arise from dealing with the proposed counterparties and proposed projects/investments. Reputational risks may arise due to past behaviours with regard to matters such as work, health and safety, workplace behaviour or governance, environmental offences and the conduct of officers and/or shareholders. Managing reputational risk arising from a counterparty's previous actions requires satisfactory evidence that appropriate steps have been taken to address these issues.

For investments that pass the preliminary screening process, detailed due diligence is conducted against the relevant Material ESG Factors. In some circumstances, investment opportunities may move directly to detailed screening. Where this occurs, negative screening and reputational risk reviews are conducted concurrently with commercial due diligence.

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 positive 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 compliance with the CEFC Act and CEFC Investment Mandate

Test for exclusions

Conduct reputational risk screening

**Detailed screening**

Identify potential ESG risks

Quantify potential positive ESG opportunities

**Execution**

Set counterparty obligations to manage relevant risks and opportunities

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

**Ongoing management**

Track performance against ESG risks and opportunities

Pursue active engagement and influence with relevant stakeholders

Share knowledge and collaborate with investors, industry and market participants

Monitor external ESG- related factors including changes relating to regulations, government policy and changes in law

**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 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.

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 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:

GREEN BANK NETWORK

Climate Bonds Initiative

CLEAN ENERGY COUNCIL

Australian Sustainable Finance Institute

riaa Responsible Investment Association Australasia

# 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, the Environment Protection And Biodiversity Conservation Act 1999 (Cth) and the Public Governance, Performance and Accountability Act 2013 (Cth)).

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 maintaining net zero Scope 1 and 2 emissions, with annual reporting in accordance with the Australian Public Service (APS) net zero.<br>We are also working across our value chain to identify opportunities to reduce Scope 3 emissions. | | ● |
| | | | – TWh of new renewable energy capacity unlocked<br>– Mt estimated emissions reductions<br>– Facilitating delivery of additional GW of electricity network capacity | ● | |
| | Leadership | | The CEFC contributes to industry initiatives including advocacy, policy and standards development, market reports and support for 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-related risks and opportunities disclosures | | The CEFC evaluates, manages and discloses its climate-related financial risks and opportunities. | | ● |
| | | | Investments are screened and evaluated for their climate-related risk and opportunities, management and disclosure. | ● | |
| | Nature | Ecological impact | Counterparties are screened for:<br>1. Compliance with relevant environmental law, and unaddressed serial or material offences<br>2. Ongoing performance. | ● | |
| | | 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. | ● | |

| | | | | Investment | Corporate |
|---|---|---|---|---|---|
| Governance | Business Conduct and Ethics | Anti-corruption and competitive behaviour | Counterparties are screened for material systemic/material offences regarding anti-corruption, anti-bribery and anticompetitive conduct. This will include corporate actions, activities, and employee behaviour. | ● | |
| | | Modern Slavery | The CEFC implements Modern Slavery Act 2018 (Cth) (Modern Slavery Act) risk assessments of suppliers, due diligence, and the potential requirement for mitigation as a condition to entering into procurement contracts.<br>The CEFC makes an annual Modern Slavery Statement in compliance with the Modern Slavery Act which addresses modern slavery risks in operations and supply chains | | ● |
| | | | The CEFC implements:<br>– Modern Slavery Act risk assessments of counterparties, due diligence, and the potential requirement for mitigation prior to investing<br>– 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. | | ● |

ESG opportunities

ESG risk

# Appendix A: Material ESG Factors continued

| | | | | Investment | Corporate |
|---|---|---|---|---|---|
| Social | Equity, diversity, and labour practices | Diversity equity and inclusion | Counterparties screened for their commitment to diversity and equity principles. | ● | |
| | | | 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:<br>1. Create and maintain a safe and healthy workplace environment that is free from physical and psychosocial hazards<br>2. Attract, develop and retain a highly skilled workforce who are fairly remunerated<br>3. Execute our positive duty to prevent systemic sexual harassment, sex-based harassment and discrimination, hostile work environments and victimisation | | ● |
| | | | Counterparties are screened and monitored for:<br>1. Serial or material offences in work safety policies<br>2. Ongoing performance monitoring | ● | |

| | | | | Investment | Corporate |
|---|---|---|---|---|---|
| Social | 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. Where considered appropriate, 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. | ● | |
| | | | 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. | ● | |

ESG opportunities

ESG risk

ESG counterparty screening: not all investments are subject to all material ESG risks; assessments focus on relevant material factors specific to each investment.

# 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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