

# Institutional Investor Dialogues: Cbus' ESG & Climate Strategy

## **Christine Chardonens:**

Welcome to this edition of MSCI Investor Dialogues. My name is Christine Chardonens, I am an Executive Director for Global ESG Index at MSCI. Today I will be talking to Kristian Fok. So Kristian, hi and welcome. Kristian you are Chief Investment Officer of Cbus, one of Australia's largest super funds. Cbus has a very comprehensive sustainability strategy which is applied across the entire fund. And your ESG leadership and climate roadmap has been highly recognized in the industry including for example, by the Investor Group on Climate Change. So, Kristian, what has been the key sustainability milestone achieved by Cbus in 2020 and what is your major objective for this year?

## **Kristian Fok:**

Thank you Christine, I would probably like to start off by saying 2020 was an incredibly busy year. I think everyone in the finance industry would sort of, may recall that year was really impacted by COVID-19, its impact on not only markets but also society. And so during that period you know, as a long term investor we've recognized that there was a role we could play particularly around supporting and funding businesses through this hard time. And also looking at investing in projects can help with the economic recovery.

But in addition to that we're also involved in responding to, in Australia the modern slavery frame rule. We developed infrastructure contractor protocols that we now share and use when we're looking at direct investments. And we've been out at work with our governments on ways to apply private capital towards affordable housing in partnership with the National Housing Finance and Investment Corporation that was established in Australia.

## **Christine Chardonens:**

An increasing number of investors and corporates commit to being net zero by 2050, so what does it mean for Cbus? How do you, you know, be able for use with targets, emission reduction targets?

## **Kristian Fok:**

So for us it's quite interesting. We started sort of thinking about this issue in a smaller way in 2018. Our fund serves the needs of many many members, but in particular those in the

construction industry. And we have our own company that develops property and through that insight we made a commitment around our property sector to seek to have a net zero targets for our property sector by 2030 and we did that in 2018. And in the following years we took the learnings from that commitment and started to understand that we could actually be a little bit more ambitious and seek to apply that across our whole portfolio. Recognizing that there are some parts of the portfolio that we can actually target a faster transition, there are other parts which might take a slower amount of time. But we do believe that as an investor if we are seeing the economy, global economy and also corporates moving that way then it makes a lot of sense for us to be doing that with our own portfolio.

**Christine Chardonens:**

If we look at your equity portfolios more specifically, you developed a strategy to address climate transition risk. Can you tell us more about that and also whether you're planning to expand the approach to other asset classes?

**Kristian Fok:**

Probably like a lot of larger asset owners, part of our equity strategy is quantitatively driven. I think one of the issues that we identified, particularly as we were developing the value related strategies, was that in the absence of forward looking information, those strategies would tend to favor and investing companies look cheap relative to history but for various reasons they may actually be cheap for a reason. And we felt that climate was one of those factors where if you think about you know companies that are potentially at risk of being stranded, over time you would expect that their value should fall relative to history and we didn't want to be buying them. So we're really grateful to be able to partner with MSCI to have a look at the low carbon transitions scores that MSCI produced. So you would be aware you know, those scores sort of categorize companies into a number of categories. Such as those that provide solutions, those that are neutral in relation to the transition, those that are at risk in terms of transition operational and transition product and asset stranding. And so for us we excluded those companies from the quantitative models that were considered asset stranding and we incorporated penalties to discourage the model from investing in or reduce the wait of companies that are considered to be in the transition operational and transition product risk categories.

**Christine Chardonens:**

Thanks. There is risk beveled to investment opportunities. In fact the funds, one of the funds targets is to allocate 1% of its capital to climate change solutions. So 1% may seem low is that so? And also can you tell us about how those climate change solutions fit with the default options of the fund?

**Kristian Fok:**

Yeah so I think the first thing I'd like to point out there is 1% is a dedicated allocation, but the way we think about the portfolio is across the entire portfolio. The reason why we made a dedicated allocation is that we actually wanted our team to have an incentive to really look at this issue across each of their asset classes in terms of the opportunities. Often in the past either cost or the scalability of opportunities or the fact it was a bit niche stopped people from looking at that. And so this 1% allocation is effectively designed to be across the risk spectrum going from profitability down to debt. What we have found is I think 2 things. First of all, the exercise of the team in investigating those products is very good, some interesting insights that they apply across the broader portfolio. But also quite interestingly a number of the investments that we have, which are sort of cornerstone fund investments have led to much larger scale direct investment opportunities.

We already had sort of a message that we conveyed to our members around this sort of, virtuous circle of taking your or their retirement savings, pooling it together and then actually having them invest it back into the industry. To not only create returns for their retirement but also jobs and in later years also more sustainable type of investments in terms of the building side of things. So we felt that the things that resonated with our members would also drive insights around how we were finding investment opportunities did align with the SDGs. However as you know there's a lot of SDGs. Trying to invest in or align with all of them is quite an ambitious task so we decided to focus on a smaller subset. Which is not to say that we're not interested in the other ones and in fact, again its a bit like the example I gave with the 1% climate portfolio. Start a bit sort of in the more manageable sides and then start sort of leverage the insights further. So for us on the investment side, we picked SDG 7 which is affordable and clean energy. SDG 8 which is decent work and economic growth, you can see how that relates to that previous part of the story I mentioned. SDG 9 industry innovation and infrastructure which again aligns with our membership and where they work and where we invest. SDG 11 sustainable seeds in communities and SDG 13 climate action. In addition to that we also from an advocacy point of view and also when we think about our role as owners how we vote our companies we focus on SDG 5 which is gender equity and clearly also SDG 17 which is actually promoting the SDG goals.

**Christine Chardonens:**

Thank you Kristian this was extremely interesting. Thank you for joining us today.

**Kristian Fok:**

Thank you, my pleasure.

## About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process. To learn more, please visit [www.msci.com](http://www.msci.com).

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or disseminated in whole or in part without prior written permission from MSCI.

The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.

None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.

It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, "Index Linked Investments"). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.

Index returns do not represent the results of actual trading of investible assets/securities. MSCI maintains and calculates indexes, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.

The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.

Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.

Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research LLC and Barra LLC, may be used in calculating certain MSCI indexes. More information can be found in the relevant index methodologies on [www.msci.com](http://www.msci.com).

MSCI receives compensation in connection with licensing its indexes to third parties. MSCI Inc.'s revenue includes fees based on assets in Index Linked Investments. Information can be found in MSCI Inc.'s company filings on the Investor Relations section of [www.msci.com](http://www.msci.com).

MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Except with respect to any applicable products or services from MSCI ESG Research, neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and MSCI's products or services are not intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Issuers mentioned or included in any MSCI ESG Research materials may include MSCI Inc., clients of MSCI or suppliers to MSCI, and may also purchase research or other products or services from MSCI ESG Research. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.

Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and Standard & Poor's.

MIFID2/MIFIR notice: MSCI ESG Research LLC does not distribute or act as an intermediary for financial instruments or structured deposits, nor does it deal on its own account, provide execution services for others or manage client accounts. No MSCI ESG Research product or service supports, promotes or is intended to support or promote any such activity. MSCI ESG Research is an independent provider of ESG data, reports and ratings based on published methodologies and available to clients on a subscription basis. We do not provide custom or one-off ratings or recommendations of securities or other financial instruments upon request.

Privacy notice: For information about how MSCI ESG Research LLC collects and uses personal data concerning officers and directors, please refer to our Privacy Notice at <https://www.msci.com/privacy-pledge>.