Institutional Investor Dialogues: Cbus' ESG & Climate Strategy

Christine Chardonnens:

Welcome to this edition of MSCI Investor Dialogues. My name is Christine Chardonnens, 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 Chardonnens:

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 Chardonnens:

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 Chardonnens:

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 Chardonnens:

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**.
