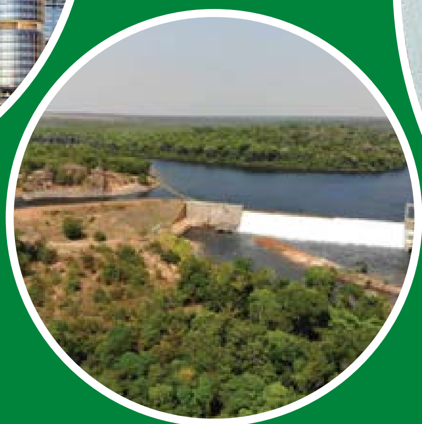
Making a difference

Destination Net Zero Report



How we report

This report sets out our strategy and approach for managing climate change risks and has been prepared in alignment with the recommendations from the Taskforce on Climate-related Financial Disclosures (TCFD) guidelines.

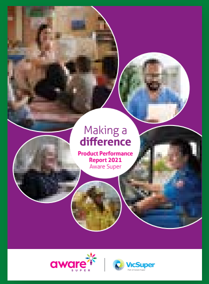
This is our baseline disclosure report aligned to the TCFD guidelines, building on the previous reporting undertaken by VicSuper, prior to its merger with Aware Super. We will continue to report and build on our approach to addressing climate change in conjunction with the TCFD recommendations on an annual basis.

The responses below cover the financial year 1 July 2020 to 30 June 2021, unless otherwise stated.

This year we've introduced some improvements to our annual report to help our members, employers and other stakeholders find the information they need more easily.

Part of the Annual Report

Annual Report 2021

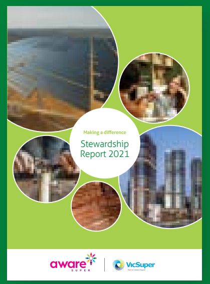


Aware Super Product Performance Report 2021

VicSuper Product Performance Report 2021

Governance Report 2021

Additional report



Stewardship Report 2021

For more information or to request a printed copy free of charge, please call **1300 650 873** | **aware.com.au**

Issued October 2021.

VicSuper

We recently merged with VicSuper, so now we have the capacity for even greater good!

We'd love to get your feedback on our report:

If you have any comments about the content covered this report, please don't hesitate to contact us:

corporate.responsibility@aware.com.au

We're one of Australia's largest superannuation funds with a great responsibility – to build and protect our members' retirement savings. It's therefore crucial we consider the potential risks of climate change to our investment portfolio, and how we mitigate against them.

We actively consider the impact of climate change in our investment decisions and in the ongoing investment management of our fund. With our focus on climate change, we are driving long-term returns for our members, and having a positive impact on society and the environment more broadly.

Since 2015, we've been formulating our climate change approach. Our Climate Change Portfolio Transition Plan (Transition Plan), was approved by the board in early 2020, providing a framework of recommendations and targets to help us navigate the large, systemic, and structural shifts that climate change requires.

Aware Super has committed to transition its investment portfolio to net zero emissions by 2050.

Inside this report

Governance

The long-term success of our fund depends on effective management and a robust governance framework, including how we manage the financial risk of climate change.

The Aware Super board has ultimate responsibility for overseeing all investment decisions, including the management of any financial risks due to climate change. The board sets and approves the Investment Governance Framework which combines the systems, structures, policies, processes, and people employed to ensure we have a disciplined approach to investment risk management. The Investment Committee has delegated authority to oversee certain elements of the Investment Governance Framework. Further, our Responsible Ownership approach (including our response to the issue of climate change) is strongly embedded in the Investment Governance Framework, including our Investment Beliefs, the Investment Policy Statement, and Responsible Investment Policy.

Our Chief Investment Officer (CIO) is responsible for the overall implementation of the Transition Plan and the day-to-day work is overseen and managed by our Head of Responsible Investments. Both roles provide regular updates to the board, as well as updates on our actions to address climate change risk in line with our Transition Plan. A formal annual review of progress against the actions and goals of the Transition Plan is also provided to the Investment Committee and board.

Climate change risk management

<table>
<tr><th colspan="2">Trustee Board</th><th colspan="3">Investment Committee</th></tr>
<tr><td colspan="5">Oversight & approval bodies</td></tr>
<tr><td>Investment Governance Framework</td><td>Investment Beliefs</td><td>Investment Policy Statement</td><td>Responsible Investment/ ESG Policy</td><td>Transition Plan</td></tr>
<tr><td>Combines the systems, structures, policies, processes, and people employed to meet our member responsibilities

Ensures a disciplined approach to investment risk management including environmental, social & governance (ESG) (including climate) related risks</td><td>Being a responsible owner adds value: this comes from managing risks, including those related to ESG</td><td>Sets out the fund's investment policies including: objectives, strategy, our responsible investment and ESG approach</td><td>Describes the approach to environmental, social and governance issues from an investment perspective and specifically our climate change policy</td><td>Provides a framework of recommendations and targets to help contribute to the large, systemic, and structural changes that climate change requires</td></tr>
<tr><td colspan="2">CIO</td><td colspan="3">Head of Responsible Investments</td></tr>
<tr><td colspan="5">Responsible for Implementation</td></tr>
</table>

Strategy

Our investment approach focuses on building and protecting members' retirement savings to deliver steady, long-term investment value.

Our climate change strategy, including the responsibility to manage financial risks associated with climate change and the transition to a low-carbon economy, forms an important part of the management of our investments. It outlines the approach to identifying and integrating climate related risks and opportunities into our investment decision making, as well as the related negative or positive impacts on the resilience of the investments and the value of our member's retirement savings.

All of this is brought together under our Transition Plan. This plan acknowledges the rise of global average temperatures and the increase in the magnitude of extreme weather events and climate-induced tipping points - such as the Greenland or Antarctic ice sheet collapse, permafrost thawing or monsoonal shifts. These events have the potential to impact all investment sectors, across both medium and long-term time horizons, with some impacts already being experienced.

The Transition Plan consists of 3 main pillars:

1	Climate related opportunities: Low carbon investment
2	Managing the transition: Portfolio future-proofing
3	Climate change and active ownership

Further details on the pillars, including specific objectives and progress are discussed in the Climate related metrics & targets section of this report. They all align to our overarching goal being to strive to reach net zero portfolio emissions by 2050, with a 45% reduction in emissions by 2030.

Whilst the science behind tackling climate change is constantly developing we are committed to maintaining flexibility and agility in our approach and will incorporate future scientific developments into our overarching Transition Plan - including developments resulting from the forthcoming COP26 UN Climate Change Conference, Glasgow in November 2021, and the IPCC AR6 Report in 2022.

Over the past year, we've made meaningful progress against our climate change strategy including:

- Divesting from thermal coal mining companies.
- Conducting an asset level review of our real assets' extreme weather risk exposure.
- Incorporating physical risks of climate change desktop reviews, where appropriate, into ESG due diligence.
- Reducing our carbon intensity through lowering listed equities portfolio emissions.
- Investing in renewable energy.
- Encouraging improved climate risk management through company engagement and voting.

Further detail on these initiatives, against goals and targets, are included in the remainder of this report.

In the financial year ahead, we will focus on continuing to develop and progress several key strategic climate-related themes. One of the most pertinent of these is to evolve and deepen our scenario analysis to assess our portfolio's resilience to a series of relevant and current climate scenarios.

Over the past year, we undertook a baseline scenario analysis to consider four distinct initial scenarios:

1. A business-as-usual scenario, which could represent a 3.5°C average temperature rise, with high physical impacts of climate change.
2. A delayed policy action scenario, which could represent a scenario where physical climate risks are more moderate but the late onset of policy action results in higher transition risks.
3. A global action scenario, whereby policy makers make an immediate coordinated effort to reduce emissions, thus moderating the physical impacts from climate change and transition risk.
4. An emergency scenario, the most ambitious, where aggressive policies and major technology shifts occur to create higher transition risk, but lower average temperature increases and physical risks.

Future analysis will include scenarios recommended following the Glasgow UN COP26 in November 2021 and the IPCC report to be released in 2022. The analysis outputs will then be applied to determine if our climate strategies are likely to deliver sufficient portfolio resilience, over the short, medium, and long term, under a series of different climate scenarios.

This work will be subsequently integrated into the actions, goals, and recommendations of our Transition Plan.

Managing climate risks

We're one of Australia's largest super funds, with a sophisticated risk management process that encompasses a wide range of risks including investment, operational and regulatory. Climate-related risk is currently monitored and managed within investment risk, with the key purpose of mitigating the impact on our members' retirement savings.

We are cognisant that climate-related risks must be considered at an investment and corporate level. In the investment context we use a range of processes and tools to assess, manage and monitor climate risks and opportunities within the portfolio.

Our climate risk identification process can be summarised as follows:

Fund managers	• New fund manager assessments including approach to climate change analysis. • Annual review incorporates climate related questions. • Ongoing engagement meetings.
Direct and co-investments	• Initial ESG and climate assessments, bespoke to each investment sector. • Engagement meetings, including climate disclosures. • Proxy voting and consideration of climate-related shareholder resolutions. • Investment monitoring. • Annual review of investment, where appropriate.
Investment sectors	Undertake sectoral climate and climate risk analyses, particularly within: • The listed Australian equities portfolio. • The listed international equities portfolio. • The listed Socially Responsible Investment portfolio.

The specific climate related risks considered include:

Physical risks

Over the past year we designed and introduced a materiality-tiered assessment approach for determining acute and/or chronic physical risks in investments. The baseline tier constitutes a desktop analysis, using available data sources, on the likelihood of investments or potential investments experiencing physical risks. These risks include increased frequency and magnitude of extreme weather events such as cyclones, changing rainfall patterns, flooding, drought, heat stress and sea level rises.

Three timeframes are considered - recent past and now, 2030 and 2050. Assets deemed to have a moderate or high risk in any one of the categories may then be assessed using a larger and more granular series of data, maintained by an external expert provider.

The 3rd tier is assigned to detailed and in-depth due diligence, on a particular investment, to identify probable or potential financial risks. We may then implement capital expenditure programs to strengthen an asset's resilience to the identified physical climate risks.

Transition risks

We consider at an individual asset, investment segment and portfolio level, those potential risks and opportunities that might arise as the world transitions to a low-carbon economy. These are wide reaching and include considerations of climate-related technology obsolescence, shifts in consumer preferences, social pressures, and stranded asset risks.

In addition, we continuously seek to implement robust methodologies for including relevant transition scoring or ratings into investment decision making. To date, a transition scoring methodology has been incorporated into our internal Australian systematic equities strategy.

We recognise that regulatory and legislative changes may guide, influence or dictate how we address and report climate-related risks in the portfolio. In Australia, Aware Super made a submission regarding the Climate Change (National Framework for Adaptation and Mitigation) Bill 2020 and has been an active participant in reviewing and providing feedback to APRA's Draft CPG 229 Climate Change Financial Risks guide. Beyond Australia, we endeavour to stay well-informed on the regulatory changes that potentially impact our overseas investments, as well as being potential blueprints for Australian regulation in the future.

Opportunities

We proactively seek investment opportunities in sectors or markets assessed to be winners in a low-carbon transition. Examples include renewable energy investments in Australia, the USA, South America, and Europe, including wind farms and large and medium-scale solar. We are proud that over the last year we made commitments in approximately $1 billion in renewables and low carbon technologies.

Additional investments have also been progressed in businesses supporting battery storage, electric vehicle infrastructure and technology solutions to optimise fuel-efficiency in long-distance transportation. It's anticipated that our approach to climate-related risk identification and management will continue to evolve as both new and emerging risks are identified.

Stranded asset risk case study

Over the past year the Aware Super board approved the divestment of thermal coal miners from the investment portfolio. The rationale for this was the acknowledgement that, in the medium term, thermal coal miners were likely to deliver diminishing returns and potentially become stranded assets. This would result in value destruction for our members, so on this basis the decision was made to divest thermal coal miners from the entire portfolio in October 2020.

We will continue to assess the presenting transition risks in other fossil fuel related industries, including oil and gas producers, and power generators.

Initiatives for the financial year ahead include:

Pillar 1: Low carbon investments

Consideration and background analysis on implementing a shadow price on carbon. The final methodology and scope for inclusion is still in design phase, however this may include consideration of cross-border carbon border adjustment taxes, as is being considered by the EU and the US.

Pillar 2: Portfolio future-proofing

Maturing and enhancing our climate scenario modelling analysis approach incorporating deeper scenario analysis around a range of transition pathways.

Pillar 2: Portfolio future-proofing

Incorporating transition scoring into our ESG due diligence, where appropriate.

Overall governance

Climate change risk responsibility positioning within the organisational risk management framework.

Climate related metrics & targets

Our overarching goal is to reach net zero portfolio emissions by 2050, with a 45% reduction in emissions by 2030.

To ensure we make a positive impact, the baseline, goals and pathway to achieving our goals need to be clearly defined. These are essential stages in our climate related portfolio transition.

Our overarching target is based on science and aligns with the Paris target to limit global warming to as close to 1.5°C above pre-industrial times as possible. As a responsible owner, we must be accountable for targeted emissions reduction through our investment and portfolio decisions, made across both listed and unlisted investments. We must also consider the impacts and opportunities from the transition created for workers and society.

To authentically set a net zero emissions pathway we must transparently define, understand, measure, and monitor our investment portfolio emissions profile. Our Transition Plan sets specific and measurable goals to reduce these emissions in each of the investment sectors, over the short, medium, and long term.

We have outlined below the targets and goals for each pillar and will use this baseline report to monitor our progress each year, as well as define any changes to existing and new targets.

Pillar 1

Low carbon investments: emissions reduction and investment decisions

Currently we only measure the emissions baseline for our listed equities portfolio. We therefore have a sizeable task ahead of us over the next 12 months to baseline our entire portfolio emissions (scope 1 and 2 emissions).

Once this baseline data has been calculated, we will analyse the emissions by investment, sector and with consideration to investment-duration. Once fully understood, and over the next 3 years, we will use these outputs to set measurable near-term emissions reduction targets and a longer-term 2050 net zero emissions pathway. These targets will likely range from overarching sector emissions reduction targets to individual asset targets for large, directly owned investments.

Our goals will be transparent and reported annually as part of our TCFD aligned reporting. It's acknowledged however that these targets will evolve as future analysis is undertaken to integrate scope 3 emissions and portfolio emissions tracking over the next 2-3 years.

Other targets and goals for the low carbon investments pillar that are already completed or underway are presented in the following diagram.

Targets and goals for the low carbon investments pillar

Target

Annual investment targets for renewables / climate related / low carbon investments

Progress

Our Infrastructure and Private Equity sectors have committed just under $1 billion during FY21 to investments in renewables and low carbon technology companies

July 2020

Target

Socially Responsible Investment (SRI) Portfolio review

Progress

The SRI portfolio review was completed by October 2020 and resulted in sizeable tightening of a range of the SRI screens, including fossil fuel related industries

In the 12 months between 30 June 2020 and 30 June 2021, including as a result of the criteria change in the SRI screens, the SRI equities portfolio has seen a 63% reduction in emissions intensity of the listed SRI portfolio

December 2020

Target

Implement and achieve a targeted emissions reduction compared to baseline for our listed equities portfolio

The final target is a 30% reduction in emissions intensity, against a 2019 baseline by 2023 for the our listed equities portfolio

Progress

Carbon Constrained Index implemented in November 2020

- Between December 2019 and December 2020 we achieved a reduction in emissions intensity of 40% across our listed equities portfolio.
- Between December 2019 and 30 June 2021, we have achieved 45%.

The result of this is that we have already exceeded our goal of 30% emissions intensity reduction by 2023

Progressive targets 2019-2023

Stated date for completion

Climate related metrics & targets (continued)

Other investment achievements that support our emissions reduction goals include:

Lendlease US

An investment alongside Lendlease US in a portfolio of US residential property investments. In the delivery and operations of those assets, audited net zero carbon emissions has been achieved. This included residents' emissions (downstream scope 3 emissions), with approximately 30% of the emissions offset via certified offsets generated by a US based renewable energy generator.

Adamantem Capital Fund II

An $80 million commitment to the Adamantem Capital Fund II (private equity) which requires all investments to have an independent emissions baseline completed (scope 1 & 2 emissions). Each investment will then be required to develop and implement detailed emissions reduction pathways.

Perfect Power Solutions

Our Private Equity team invested in Perfect Power Solutions, a US based company developing battery storage projects in New York City. Across the nine projects under consideration, the emissions benefit could be the equivalent of taking c.1,000 cars off the road per year, as they replace traditional gas fired electricity peaking plants.

Terra-Gen

In February 2021, Aware Super Infrastructure acquired a 10% interest in Terra-Gen, a US renewable energy platform focused primarily in California, alongside First Sentier Investors. The platform operates more than 1,600 megawatts (MW) of operating assets across wind, geothermal, solar, and battery storage technologies and has more than 3,000 MW of projects under development. The platform also has operating an advanced stage development battery storage project poised to capitalise on California's significant and increasing need for flexible dispatch resources.

Pillar 2

Managing the transition: Portfolio future-proofing

As part of the Transition Plan we set several targets to help future proof our investment portfolio. Some of these we've previously detailed in the report, namely our approach to undertaking physical risk of climate change assessments and our decision to divest thermal coal miners from the entire portfolio.

The ongoing role of oil, gas and metallurgical coal investments in the portfolio is an ongoing research and monitoring target we've committed to.

These practical targets will continue to evolve as we progress the transition of the portfolio to lower emissions.

Pillar 3

Climate change and active ownership

We have a responsibility to engage companies we invest in to transition to a low-carbon economy. Within our active ownership programme we prioritise engagement with the top 20 emitters (Scope 1 & 2) in our Australian listed equities portfolio.

Over the past year, we held 116 engagements across 30 companies and discussed their climate transition strategy. In 61 of these meetings, across 14 separate companies, climate change was the primary focus of our discussions. These 14 companies were prioritised due to their exposure to climate risk and the materiality within our portfolio. These engagements incorporated:

- A deep dive into a company's decarbonisation pathways, including encouraging setting of (and understanding) net zero or other emissions reduction across short, medium- or long-term targets.
- Strengthening climate governance, including TCFD disclosure.
- Understanding how or requesting a company incorporates climate-related key performance metrics into senior executives' remuneration.

Active ownership also encompasses how we vote and extends to our ability to support appropriate climate-related shareholder resolutions – particularly where we believe a company hasn't made significant enough commitments or progress on climate action.

Our commitment in action: Climate League 2030

To support our approach and leadership position, Aware Super has joined Climate League 2030 established by IGCC as a foundational supporter. This ten-year initiative aims to further support and act towards a goal of reducing Australia's annual greenhouse gas emissions by at least a further 230 million tonnes on top of what is already projected for the end of the decade.

Aware Super has committed to support this goal by pledging at least one new action each year under three themes and our commitments and achievements for year one 2020-21 are set out in this table.

More information on our progress and commitment to addressing climate change can be found on our website:

aware.com.au/transitionplan

Theme	Pledge	Achievement
1 Integration of Paris-aligned emissions reduction goals into investment policies or business strategies	Targeting a minimum 30% reduction in emissions in Aware Super's listed equities portfolio by 2023, which will also incorporate the introduction of a new low-carbon index.	We have achieved a 45% reduction across our listed equities portfolio – already exceeding our 2023 objective.
2 Collaboration between investors, clients and companies to deliver emission reductions	Aware Super commits to be an ongoing participant in the Climate Action 100+ initiative, and lead investor for a number of companies. We will report on our progress for each company engagement plan through CA100+.	CA100+ released its 2020 Progress report on 17 December 2020 showing the progress achieved against the CA100+ objectives.
3 Investment in new clean energy, clean technology and other projects and measures that reduce Australian emissions	Invest up to $150 million in renewables, clean tech and transition technologies across Aware Super's Infrastructure and Private Equity portfolios in FY 2021.	We have committed approximately $1 billion in capital to renewable energy projects in our Infrastructure portfolio and low-carbon technology in our Private Equity portfolio. These include Tilt, TerraGen and Perfect Power Solutions.

Climate change advocacy

Climate risk is a complex and evolving area. Developing a best-in-class approach requires collaboration and knowledge sharing with other industry participants.

We participated in a range of relevant industry forums and collaborations to contribute towards the transition to a low-carbon economy. These included:

- Climate Action 100 (CA100+), as lead investor, plus a member of the CA100+ Oil & Gas Working Group.
- Investor Group on Climate Change (IGCC)
  - Member of Physical Risk and Resilience Working Group
  - Founding signatory to the Climate League 2030 initiative, which requires us to commit and report against our Paris aligned climate goals
  - Financing partner of the IGCC report "Investing in an Equitable Transition"
- UN supported Principles for Responsible Investment (PRI) signatory, which involves reporting on our approach to responsible investment, including climate change, annually.
- Australian Sustainable Finance Initiative (ASFI).
- The Beyond Zero Emissions, Million Jobs Plan.
- Commissioning of the "Building back better: the intersection of climate solutions, healthy people and thriving communities" report by social researcher, Rebecca Huntley.
- Attending and hosting climate roundtables with key industry participants.

Recognition and awards

Money Magazine

Responsible Investment Association Australia

Workplace Gender Equality Agency

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