Making a difference

Stewardship Report 2021

aware SUPER

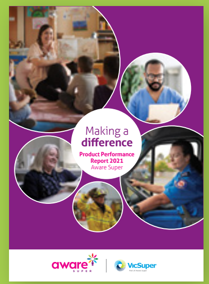
VicSuper
Part of Aware Super

How we report

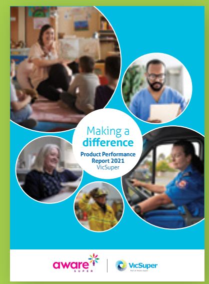
This year we've introduced some improvements to our annual report to help our members, employers and other stakeholders find the information they need more easily.

Part of the Annual Report

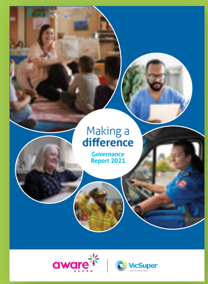
Annual Report 2021



Aware Super Product Performance Report 2021

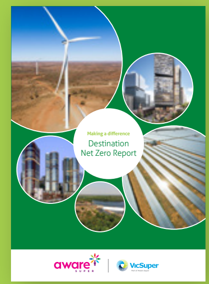


VicSuper Product Performance Report 2021



Governance Report 2021

Additional report



Destination Net Zero Report

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

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

VicSuper

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

"We're one of Australia's largest super funds managing over $148[1] billion in savings for more than 1.1 million members. We're committed to helping our members achieve their best possible retirement and are the super fund for any Australian who values community."

Deanne Stewart, CEO.

1 As at 30 June 2021.

Inside this report

We've been integrating ESG for over a decade, and we're recognised as a global leader in responsible ownership having achieved recognition through a variety of awards, memberships, and invitations to participate in global initiatives.

In 2019 we were recognised by the PRI as a leader in our approach to the appointment, selection and monitoring of fund managers and in 2021 we provided a case study to support our leading approach.

Improving responsible investment through manager engagement | Case studies | PRI (unpri.org)

Responsible Investment Association Australasia

Recognised as a Responsible Investment Leader 2021 by the Responsible Investment Association Australasia (RIAA).

This acknowledges:

- our commitment to responsible investing;
- our explicit consideration of environmental, social and governance factors in investment decision making; and
- our strong and collaborative stewardship; and
- our transparency in reporting activity, including the societal and environmental outcomes being achieved.

riaa Responsible Investment Association Australasia — Responsible Investment Leader 2021

Highlights

- Recognised as one of the leading super funds for responsible investment by RIAA.
- Received the highest A+ rating from the PRI for Strategy & Governance.
- Recognised by the PRI as a leader for our approach to the appointment, selection and monitoring of fund managers.
- Recognised by the PRI as a leader for our Climate change reporting.
- The only Australian super fund to be awarded the global ESG Incorporation Initiative of the Year by PRI in 2019.
- One of only 30 global companies invited to join the UN Global Investors for Sustainable Development Alliance.
- The first major Australian super fund to become Tobacco Free in 2012.

More information can be found in our Responsible Investment Policy and on our website:

aware.com.au/responsible-ownership

About us

We began putting members first in 1992 when we were known as First State Super. In 2020 we merged with VicSuper and WA Super, and became known as Aware Super. One thing hasn't changed though, our unwavering commitment to doing well for our members and at the same time as doing good for all.

Responsible ownership

A key way we deliver on our commitment to doing well and doing good, is the approach we take to investing our members' money – we call this responsible ownership.

When we invest our members' money we are looking for strong risk adjusted returns to drive the best retirement outcomes but we also actively consider how a range of environmental, social and corporate governance (ESG) factors impact our investments. When making investment decisions across all asset classes, we look at:

- **Environmental issues** like climate change, waste, pollution, and biodiversity.
- **Social issues** like diversity & inclusion, modern slavery, labour relations including supply chain management, workplace health & safety, conduct & culture and adherence to international conventions.
- **Governance issues** like board structure, director remuneration, and transparency & reporting.

As a responsible owner, we work with fund managers, boards and company executives to ensure they act in the interests of members, which means ensuring they make decisions that consider ESG factors and support the long-term sustainability of returns to our members.

More information can be found in the Responsible ownership section of our annual report.

Stewardship

We view stewardship as an important element of our responsible ownership approach, and this is what this Stewardship Report is about.

It means we are actively monitoring and engaging with the companies we invest in, and the fund managers we partner with. This engagement helps influence positive improvement in areas such as climate change, worker safety, diversity, company conduct and culture, and cultural heritage management. Additionally, we use our voting rights to ensure these companies are governed in a way which both enhances their performance over the longer term and holds them accountable.

Some of the important outcomes we've helped achieve over the year are:

Environmental

- Linking climate related metrics to executive remuneration.
- Net zero and more ambitious emission reduction targets through our lead role within Climate Action 100+.
- Commitments to an advisory vote on companies' climate transition plans at 2022 Annual General Meetings.

Social

- Greater accountability for cultural heritage management, at Rio Tinto, following Juukan Gorge destruction.
- Greater accountability for conduct issues and governance at AMP.
- Greater focus on modern slavery and labour rights through Investors against Slavery & Trafficking Asia-Pacific (IAST-APAC).
- Implementation of an external whistleblower line to support employees speaking up.
- Commitment to diversity targets at the executive level through 40:40 Vision.

Governance

- Improved board skills, independence and diversity.
- Increased oversight of safety risks during COVID-19.
- Executive incentives aligned to shareholder and employee experience during the pandemic.

Advocacy and collaboration

We engage and collaborate with other like-minded investors & industry associations to help us understand the ESG opportunities across a range of industries and sectors. We're involved in a number of initiatives including:

GISD Alliance (Global Investors for Sustainable Development)

The GISD Alliance is made up of 30 CEOs all of whom are recognised leaders of major financial institutions and corporations spanning all the regions of the world. GISD aims to: a) Generate support and adoption of actions required to mobilise long-term finance and investment for sustainable development. b) Foster transformation of the enabling environment for long-term investment in sustainable development. c) Facilitate the alignment of business operations, finance and investment with the 2030 Agenda for Sustainable Development.

Read more about GISD:

gisdalliance.org

riaa Responsible Investment Association Australasia

The Responsible Investment Association Australasia (RIAA) champions responsible investing and a sustainable financial system in Australia and New Zealand. RIAA is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy. With over 350 members managing more than $9 trillion in assets globally, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand.

Read more about RIAA:

responsibleinvestment.org

CLIMATE LEAGUE 2030

Aware Super has joined Climate League 2030, established by the Investor Group on Climate Change (IGCC), as a foundational supporter. This new 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.

Read more about IGCC:

climateleague.org.au

IAST APAC

Investors against Slavery & Trafficking Asia-Pacific (IAST APAC) is an investor-led initiative that has been convened to engage with companies in the APAC region in which we collectively invest, and promote effective action among them to find, fix and prevent modern slavery, labour exploitation and human trafficking.

Read more about IAST APAC:

iast.fastinitiative.org

40:40 VISION

40:40 Vision is an investor-led initiative to achieve gender balance in executive leadership across all ASX200 companies by 2030 and seeks to move beyond tokenism to achieve this through business-oriented structural change, encouraging companies to set and publicly report on progress against targets for women in executive leadership. 40:40 stands for: 40% women / 40% men / 20% any gender – the composition we have for the Aware Super board.

Read more about 40:40 Vision:

4040Vision

PRI Principles for Responsible Investment

We are a signatory to the Principles for Responsible Investment (PRI). The PRI is a universal framework to help investors learn from each other and be a collective voice on ESG issues. We participate in their annual benchmarking survey and have consistently received an A+ for our Responsible Investment Strategy and Governance.

Read more about PRI:

unpri.org

Advocacy and collaboration (continued)

We are a member of the Australian Council of Superannuation Investors (ACSI) and a signatory to its Australian Asset Owner Stewardship Code. We have supported a range of submissions ACSI made on behalf of its members.

Read more about ACSI:

acsi.org.au

IGCC is an Australian and New Zealand collaboration on the impact of climate change on the financial value of investments. We are a signatory to the Global Investor Statement to Governments on Climate Change. We also supported a range of submissions that the Investor Group on Climate Change (IGCC) made on behalf of its members.

Read more about IGCC:

igcc.org.au

We joined more than 600 global investors with more than US$55 trillion in assets under management to engage the world's largest carbon emitting companies to act on climate change through the Climate Action 100+ initiative.

Read more about Climate Action 100+:

climateaction100.org

We support the work of the Australian Sustainable Finance Initiative through our involvement in working groups focussed on mobilising capital to deliver on sustainability challenges and opportunities. The initiative developed a roadmap to realign the finance sector to support greater social, environmental and economic outcomes for Australia.

Read more about the Australian Sustainable Finance Initiative:

sustainablefinance.org.au

We are a client of Federated Hermes EOS, who undertakes engagement with companies held in our international equities portfolio on our behalf. We have supported a range of submissions Federated Hermes EOS made on behalf of its members, including those focused on climate change.

Read more about Federated Hermes EOS:

hermes-investment.com

We are a CDP signatory and a supporter of their climate change research, resources and tools.

The CDP is a global initiative aimed at requiring the largest companies to disclose information on their greenhouse gas emissions.

Read more about CDP:

cdp.net/en

Our commitment to the United Nations Sustainable Development Goals

Aware Super works with the investment community and investee companies on a range of initiatives that advance the adoption, integration and reporting of the UN Sustainable Development Goals (SDGs). One example of this is our involvement with the UN GISD.

We have highlighted three material SDGs that are aligned to our stewardship activities – these are:

Take urgent action to combat climate change and its impacts.

13.2 Integrate climate change measures into policies, strategies and planning.

Achieve gender equality and empower all women and girls.

5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making.

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

8.7 Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms.

The 17 SDGs contain 169 targets to address the world's most urgent sustainability challenges, such as poverty, inequality and climate change, by 2030. It's widely recognised that achieving meaningful progress by 2030 will require trillions of both public and private investment dollars. We're proud that through the investments we make and our active ownership activities we will be contributing to a number of the SDGs, fulfilling our commitment to delivering strong, long term returns with societal and environmental benefits.

Throughout this report we have included the SDG icon that aligns to our active ownership themes.

Active ownership

Our responsibility as an asset owner is to make sure companies we invest in are governed and managed to enhance their long-term performance and to protect our members retirement savings.

Our active ownership approach includes:

Engagement

When engaging on ESG matters we pay close attention to risks and opportunities that can impact the long-term sustainability of returns to members.

Voting shares

We exercise our voting rights to express our views on good governance. We use our voting rights to support resolutions that enhance value for our members.

Exclusions

Sometimes we exclude certain companies or sectors if the investment contravenes international treaties or there is a risk of businesses being left with stranded assets.

Engagement

We use our ownership rights to engage with companies, where we believe the management of ESG issues is not meeting industry standards, community expectations, or whose conduct threatens their reputation and value. The objective of engagement is to encourage the company to improve its ESG policies and practices, thereby protecting or increasing its ability to deliver our members with sustainable long-term returns.

We engage directly with Australian companies, through our fund managers, partnering with ACSI and other collaborative groups (e.g. Climate Action 100+). When engaging with international listed companies, we partner with Federated Hermes EOS and fund managers.

Australia

We engaged with 198 companies and over 419 meetings.

Engagement objectives
By theme

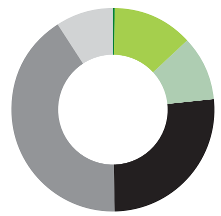
Environment	14%
Social	28%
Governance	58%

Issues and objectives engaged
ESG

Diversity	3%
Governance	20%
Cultural heritage	7%
Conduct & culture	4%
Social licence	0%
Labour rights & modern slavery	7%
Safety	7%
Remuneration	24%
Climate risk	13%
ESG reporting	12%
Capital raising	2%
Plastic & circular economy	1%

International

Companies engaged
By region



Australia & New Zealand	2
Developed Asia	86
Emerging & developing markets	69
Europe	177
North America	277
United Kingdom	60
Total	**671**

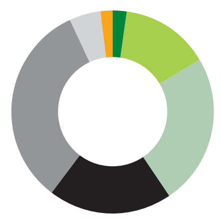
Issues and objectives engaged
By theme

Environmental	24.0%
Social and ethical	21.1%
Governance	38.6%
Strategy, risk and communication	16.2%

Issues and objectives engaged
Environmental

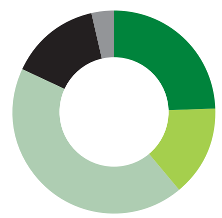
Climate change	79.9%
Forestry and land use	5.1%
Pollution and waste management	9.7%
Supply chain management	2.8%
Water	2.6%

Issues and objectives engaged
Social and ethical



Bribery and corruption	2.4%
Conduct and culture	14.2%
Diversity	24.0%
Human capital management	19.8%
Human rights	32.9%
Labour rights	4.9%
Tax	1.9%

Issues and objectives engaged
Governance



Board diversity, skills and experience	24.6%
Board independence	14.5%
Executive remuneration	43.0%
Shareholder protection and rights	14.3%
Succession planning	3.5%

Issues and objectives engaged
Strategy, risk and communication

Audit and accounting	6.8%
Business strategy	39.3%
Cyber security	3.2%
Integrated Reporting and other disclosure	24.1%
Risk management	26.6%

Active ownership (continued)

Voting

As a large investor we own shares in a diverse range of companies which entitles us to vote on various matters. We use our voting rights to support resolutions that seek to enhance value for our members across a range of areas such as board accountability and structure, executive remuneration, human rights, diversity and climate related disclosure and action. Our focus is, and will remain on, ensuring that the companies we invest in continue to deliver the best possible long-term returns for our members.

When voting on resolutions for Australian listed companies, we receive recommendations and advice from the Australian Council of Superannuation Investors (ACSI) and, our engagement with companies and fund managers is considered in our voting decisions.

When voting on resolutions for international listed companies, we receive recommendations from CGI Glass Lewis and a number of our investment managers vote directly.

We have seen an increase in the number of shareholder resolutions relating to environmental and social issues, for example climate change and human rights. We supported 75% of these including proposals regarding companies reporting on their lobbying activities, diversity & inclusion, cultural heritage and climate related activities. We also supported resolutions asking companies to undertake a racial equity audit, paying the living wage, forming a Human Rights Oversight Committee and reducing GHG emissions.

Australian shares	
Meetings	342
Resolutions voted on	1,815
Voting results	9% of votes were against management
International shares	
Meetings	3,137
Resolutions voted on	34,714
Voting results	10% of votes were against management

Exclusions

"We don't make decisions to divest from businesses or sectors lightly. We do it for our members and to be a true force for good in our community. We must respond to the risks posed by climate change and establish a clear roadmap for the future."

Deanne Stewart, CEO

As part of our responsible ownership approach we have an exclusion framework that guides our decision making when investing in industries or sectors that may not deliver strong long-term investment returns or create a positive impact for our members and the communities they live in.

Industries we don't invest in

1. Manufacturers of tobacco or cigarettes

In 2012 we were one of the first super funds to divest of these companies, thereby setting an industry precedent.

2. Thermal coal miners

From 1 October 2020 we excluded thermal coal miners across our entire investment portfolio. This is an important first step in our ongoing response to climate change and prepares our investment portfolio to transition to a low-carbon future.

3. Controversial weapons

From 1 October 2020 we excluded controversial weapons. This includes any company involved in the manufacturing or production of chemical weapons, cluster munitions, land mines and depleted uranium. This means no new investments in this sector across our entire investment portfolio.

Diversity

Contributed to SDGs

We advocate for diversity among Australian boards and executive teams and are concerned that companies who are not focused on diversity are missing out on fundamental opportunities for idea generation.

A meaningful diversity strategy is critical for companies to create long-term value - making the most of all their people and attracting and retaining the right skills and best minds, will likely require a strong focus on building a diverse workforce. Australian companies have been slow to respond and, as a result, fail to benefit from existing and potential human capital. With workforce demographic shifts and technology advances, diversity is quickly becoming a driver of growth. Maximising the potential of a diverse workforce is not only a social imperative; it's a competitive advantage.

Gender diversity in Australia

2021 continues to see a record level of female appointments to ASX200 boards - 48% of the 73 new directors announced are women. This means that ASX200 boards are nearing 34% women, with the ASX300 not far behind at 31.7%. We are committed to promoting gender diversity and on this basis chose not to support the re-election of existing directors at 12 different companies.

As board gender diversity continues to improve, focus has now turned to gender balance at the executive level. We have joined the collaborative investor-led diversity initiative 40:40 Vision, which encourages companies to set gender balance targets in executive leadership by 2030.

Case study Gender equality

40:40 Vision: We have leveraged our long-term relationship with Origin Energy to set gender balance targets. Origin already had targets around senior female appointments (target 50%) and retention levels (89%), however following our engagement they agreed to sign the 40:40 Vision pledge for gender equality targets at the executive level.

4040Vision

Case study Gender equality: Pfizer

We have engaged with the US pharmaceutical company Pfizer regarding the low levels of gender diversity on its board, arguing they should look beyond current or former CEOs and candidates with scientific or technology expertise. We're pleased to see the appointment in early 2020 of two additional female directors with backgrounds in science and education, and civil society.

Climate change

According to the Intergovernmental Panel on Climate Change (IPCC), it will take significant effort to limit global warming to the Paris Agreement target of 1.5°C above pre-industrial levels.

Unmitigated climate change would have catastrophic impacts across the globe, including impacts on human health, biodiversity, water availability, and disruption of ecosystems. Climate change therefore presents a significant financial risk to the global economy and to our members retirement outcomes.

There are also physical risks associated with rising average global temperatures, rising sea levels and the increased severity of extreme weather events (regardless of whether the Paris targets are met or not).

Investors face transition risks and opportunities as the economy adjusts to a lower carbon future. An inadequate response to any of these risks raises the potential for reputation and litigation risk. To mitigate the impact on our investment portfolios, and the financial system as a whole, our engagement is focused on ensuring the companies we invest in have strategies and actions aligned to the Paris Agreement goals. This includes advocating for the adoption of the TCFD framework, a net zero commitment and accompanying disclosure of pathways to achieve those aims.

Progress to date:

A range of climate related priorities have been incorporated into our company engagement strategy with the top 20 emitters (Scope 1 & 2) in our Australian listed equities portfolio prioritised for action. In 2020-21 we had 116 engagement meetings with 30 companies to discuss their climate transition strategy. The engagements included:

- a deep dive into a company's decarbonisation pathways, including encouraging setting of short, medium- or long-term targets for net zero or other emissions reduction; and
- strengthening climate governance, including TCFD disclosure; and
- requesting the incorporation of climate-related key performance metrics into a company's senior executive's remuneration.

Emissions definitions – put simply

Scope 1 emissions are *direct emissions* from owned or controlled sources.

Scope 2 emissions are *indirect emissions* from the generation of purchased energy.

Scope 3 emissions are *all indirect emissions* (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Case study
Climate Action 100+

We are a lead investor in Climate Action 100+. This global initiative is supported by 600 investors with more than $55 trillion in assets collectively under management – across 33 markets. That's more than half of all managed assets in the world. While many companies have set long term goals to reach net zero emissions, it's not as clear how they are going to meet them. Further engagement is required with both boards and management to discuss how they intend to achieve these goals and the interim emissions reductions they will reach in the short-term.

Through our lead role within Climate Action 100+ we saw positive outcomes from the companies for which we are the lead investor including:

- Updated climate transition strategies.
- New more ambitious emission reduction targets.
- Emission reduction targets linked to executive remuneration.

While the new emission reduction targets are a step forward, we'll continue our active engagement with boards and management to highlight the need to go further and incorporate the material Scope 3 emissions. More information on the update and progress report can be found on the CA100+ website.

climateaction100.org/

Case study
Shareholder votes on climate transition plans – "Say on Climate"

In collaboration with ACSI, we engaged with some of the highest emitters in the Australian listed market to encourage them to commit to a voluntary advisory resolution at every annual general meeting (AGM) on their climate transition plans, commonly referred to as the 'Say on Climate'. This allows investors to vote on a company's Climate transition strategy at their AGM.

Outcomes: Woodside, Origin, Santos, Oil Search, Rio Tinto, AGL have publicly announced that they will include a resolution regarding their climate transition plan at their 2022 AGM.

Following the company announcements, multiple engagements have been set up to discuss the expectations from investors prior to the 2022 AGM. This includes articulating the company's climate strategy and progress against it with clear and measurable milestones; setting more ambitious targets incorporating their material Scope 3 emissions.

Case study
Climate change transition

We commissioned a report through the Investor Group on Climate Change (IGCC), which highlighted the important role of investors in the transition to net zero emissions. Empowering Communities: how investors can support an equitable transition to net zero details the opportunities and challenges for investors in helping ensure a just transition for those communities that are currently economically tied to fossil fuel industries. More information about this report can be found on the IGCC website.

igcc.org.au

Modern slavery

Contributed to SDGs

There's a strong relationship between economic, social and environmental policies, full employment and decent work for all.

While some economies have enjoyed relatively strong economic growth, others have fallen behind with unsustainable earnings and not all workforces enjoying decent work. More progress is needed.

Business models and supply chains that rely on modern slavery, labour exploitation and human trafficking deliver unsustainable returns.

Since the introduction of the Australian Modern Slavery Act 2018 we have engaged with companies to understand how they are managing the risk of modern slavery in their operations and supply chains. Additionally, through ACSI, we commissioned research to analyse the first reports made by Australian companies under the new Act so we could have a better understanding of where risks had been found, and to enable us to engage them on the maturity of their reporting. More information on this research can be found on the ACSI website.

acsi.org.au

The core questions we ask when we engage with companies on these issues are:

- **Find it:** 'Have you found modern slavery in your operations or supply chain?' and 'If not, can you demonstrate that you have rigorous processes in place to look for it?'
- **Fix it:** 'If so, can you demonstrate the steps you have taken to improve the lives of victims?'
- **Prevent it:** 'Have you effectively reported your actions and the steps taken to prevent a re-occurrence?'

We're also engaging with our direct assets on their Modern Slavery approach as well as our investment managers. We have asked the following of our investments:

- Are you required to report under the Australian Modern Slavery Act and what is your progress to date?
- What is your approach to identifying modern slavery risks within your business and supply chain?
- How would you respond if instances of modern slavery were uncovered?
- Have any instances or risk areas been uncovered?
- If you manage an investment portfolio, do you invest in high-risk geographies or industries (as defined by Aware Super) and if so, what is your process to understand the modern slavery risks of your investments?

Case study
US farming machinery manufacturer

We engaged with one US farming machinery manufacturer to learn how the US sanctions had impacted them. Because their current human rights policy only applied to the supply chain, we specifically asked how they would comply and how it related to their customers and the use of its products. The company said that it would comply but was still working through the issue of how to conduct due diligence on their customers.

We followed up by sharing resources on how to approach human rights in high-risk areas, including sharing the UN Guiding Principles reporting framework. We sought clarity on how the company would expand its human rights policy to include customers and product use, and how it would disassociate responsibly from business relationships potentially connected to an impacted region.

Case study
Decent work

Since the initial peak of the pandemic and the subsequent global shutdowns experienced, we've systematically engaged with companies on how they manage their human capital, with a specific focus on health, safety and well-being.

For example, we've engaged with Panasonic to understand its 'e -Work' initiative and how it will continue to promote a flexible working culture to support its employees. We've also engaged with Amazon to improve its health and safety performance, especially in light of the pandemic and the associated stresses placed on employees. Additionally, we've engaged with Walmart to encourage improved communications on health and safety practices between in-store sales associates and the board.

Case study
Investors Against Slavery and Trafficking – Asia Pacific

IAST – APAC (Investors Against Slavery and Trafficking – Asia Pacific) was launched in 2020 as an investor initiative to promote effective company action to find, fix and prevent modern slavery, labour exploitation and human trafficking across the value chain. IAST APAC currently represents $A7.6 trillion ($US5.7 trillion) in funds under management across 33 members in June 2021.

Aware Super is a founding member of IAST-APAC and sits on the steering committee that oversees the initiative and workstreams.

Workstream 1 developed an investor statement on modern slavery. This statement outlines investors' expectations and encourages companies to go over and beyond the legal requirements of the Australian Modern Slavery Act (2018). It also suggests and encourages companies to take a number of specific actions, based on best practice, to combat slavery effectively.

Many of the specific points raised in the investor statement are linked to workstream 2, which focuses on engagements with specific companies. 23 companies were selected as engagement priorities from four sectors – Consumer Discretionary, Consumer Staples, Technology, and Healthcare.

Work is now underway, including establishment of engagement plans with specific objectives and milestone targets and in some cases, engagement with the companies has started. Looking ahead, investors will be using these plans for multi-year engagements with the selected companies and will continue to share knowledge and best practice.

IAST-APAC is strongly focused on industry collaboration including shared knowledge and tools to address risk and takes inspiration from the investor initiative 'Find it, Fix it, Prevent it' in the UK. It also engages with civil society, including Walk Free and FAST, as well as investor briefings on specific risks by labour rights experts.

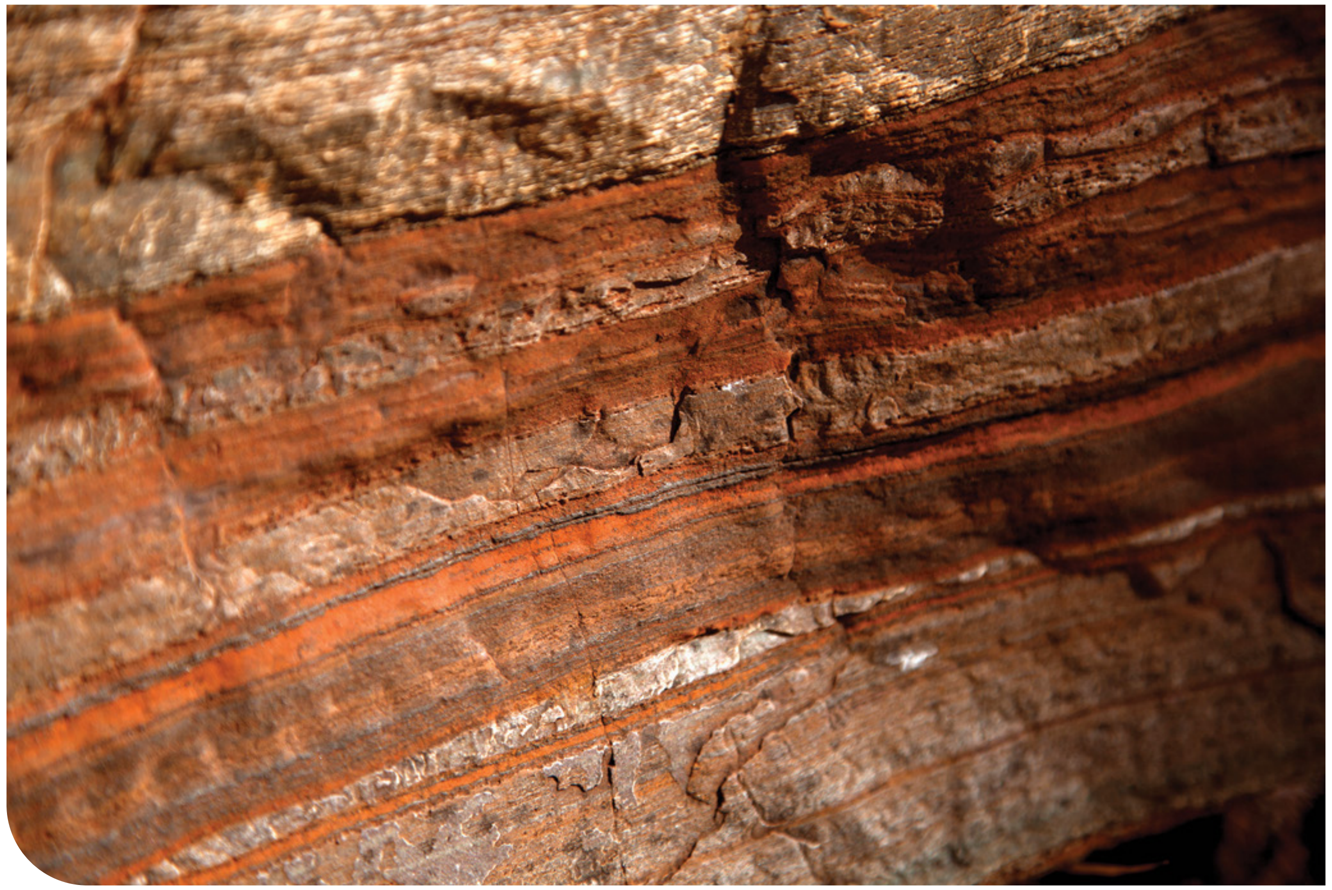
Cultural heritage

"In 2020, many people in Australia and globally were shocked and saddened by the destruction of significant sites in the Juukan Gorge in Western Australia and the irreversible loss of First Nations' cultural heritage...this event was not unique, nor the first of its kind".

Excerpt from the Investor Expectations for Engagement with First Peoples: Consultation Paper

As part of our ongoing engagement program, Aware Super is a member of the Rights and Cultural Heritage Risk Management Working Group, an ACSI and investor collaborative effort, convened to better understand the financial risks inherent in poor company engagement with First Peoples, and to chart a path towards improved risk management. The Working Group aims to see the risks of harm to cultural heritage effectively mitigated and managed through principled and constructive engagement between companies and First Peoples.

More information on how we are meeting the objectives of our Reflect Reconciliation Action Plan (RAP) including annual reporting on how we engage with companies on issues related to Aboriginal land rights and cultural heritage can be found in the Responsible ownership section of our annual report.



Culture and conduct

We're committed to enhancing the culture and conduct of the companies we invest in. Corporate culture and conduct not only relate to the values and beliefs shared by those in a company, they relate to the actual behaviours of the company and its employees.

Positive culture and conduct can have a huge impact on the long-term success of a company, including better performance, reputation and productivity. On the other hand, poor culture and conduct has the opposite effect. Over the last few years we've seen an erosion of public trust and confidence in corporate Australia, coming at a significant cost to those involved – to both reputation and financial performance.

Using our size and scale for positive impact

As one of Australia's largest super funds, we use our scale and influence to ensure better outcomes for members now and in the future and to make a real difference. That's why we're focused on using our investment power for good, monitoring and engaging with the companies we invest in to ensure a higher standard of culture and conduct.

We actively engage with companies to ensure management supports positive culture and using our voting rights and monitoring key metrics such as safety, employee engagement, turnover and consequence management across different areas of the business.

Case study
Cleanaway

Our investment in Cleanaway was only established after multiple engagements with the Chairman over the initiatives put in place following the misconduct of the CEO. We increased our holding only after we had confidence in the cultural initiatives put in place by the board. This included:

- the inclusion of culture related metrics in the CEO's remuneration; and
- increased transparency and monitoring of employee engagement.

While this gave us some confidence in the Board's commitment to cultural improvement, the eventual change in CEO was seen as a positive. We're continuing to engage with the Chairman to ensure the new CEO has the leadership skills necessary to support a positive cultural improvement.

We've seen a slight improvement in their latest employee engagement survey and importantly have seen an improvement in the share price, resulting in a strong return for our members.

Executive remuneration

Executive remuneration is key to aligning management with company strategy and performance.

Remuneration practices can provide significant insight into a company's culture, performance and strategy. Well-structured remuneration practices can support the long-term success of a company. Conversely, excessive pay, persistently high bonus outcomes and lack of alignment with shareholders can adversely affect a company's licence to operate. This in turn may negatively affect the value of our members' investments.

Throughout the year we saw continued scrutiny of corporate Australia's internal cultures with boards being held accountable for underperformance. This resulted in an increase in the number of strikes against Australian company remuneration reports with Aware Super voting against 40 (out of a possible 286). 21 companies received a strike and notably one company saw a board spill following their second strike. This was the first spill seen in an ASX200 company since the two-strike legislation was enacted.

COVID-19: Most companies appear to be using common sense and cancelling short-term incentives to ensure executive outcomes align with investor, worker and community experience. However, there were several examples of companies that lowered hurdles to enable executive bonus payouts or received government support and/or rent relief. It was on this basis that we did not support a number of remuneration proposals.

Although we saw poor remuneration outcomes in some companies, our engagement proved to be beneficial and led to improvements ahead of several AGMs, including:

- one company cancelling increases in fixed pay with amended long-term incentives; and
- a CEO waiving his long-term incentive grant for 2020-21 and his deferred short term incentive share rights for 2019-2020; and
- another company publicly announcing it had revised upwards the earnings per share (EPS) base for performance hurdles.

Recognition and awards

Money Magazine

Responsible Investment Association Australia

Workplace Gender Equality Agency

Contact us

Phone 1300 650 873
Fax 1300 722 072
Email enquiries@aware.com.au
Web aware.com.au
Post PO Box 1229, Wollongong NSW 2500

Part of Aware Super