Responsible Investment Report 2023

Helping our members from day one, to one day

From the day you start working, to the day you retire, we'll be there

Acknowledgment of Country

In the spirit of reconciliation, healing and truth-telling, Aware Super acknowledges as a whole the Traditional Custodians of the Country throughout Australia.

We pay our deepest respects to Elders past and present.

Uluru Statement from the Heart

Aware Super supports the Uluru Statement from the Heart, its spirit and aspirations. We believe in the human right of self-determination for all First Nations peoples, to have a voice on matters that affect them. It is our view that the legislative changes necessary to improve the lives of First Nations peoples and their families will require deep consultation with, and listening to, their voices.

We believe deeply that every Australian deserves to live their best possible retirement. Aware Super takes seriously our responsibility to work towards a superannuation system that allows for equitable access and participation for all First Nations peoples. As part of our ongoing reconciliation journey, we will continue to work with others in our industry, governments and the wider community to address this inequity.

For more on how Aware Super is moving towards equity through reconciliation, see:

aware.com.au/corporatesustainability

Inside this report

How we report

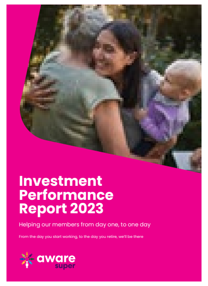
Our purpose is to be a force for good in super and retirement, shaping the best outcomes for our members, their families and communities and our industry.

Our 2022/23 Annual Report is only one of the many ways in which we live up to this purpose by communicating to our members and other stakeholders on our performance during the year, key outcomes achieved and our outlook for the future.

Our annual reporting documents include:

Annual Report 2023

aware.com.au/annualreport2023



Investment Performance Report 2023

aware.com.au/investmentperformancereport2023

Governance Report 2023

aware.com.au/governancereport2023

Additional report:

Responsible Investment Report 2023

aware.com.au/responsibleinvestmentreport2023

About Aware Super

A long history of putting our members first.

'Being one of Australia's biggest super funds means we invest and own interests in a wide range of companies on behalf of our members. Being a responsible owner is key to putting our members first and getting the best returns for their retirement.'

Deanne Stewart, Chief Executive Officer

Helping our members from day one, to one day

As one of Australia's largest profit-for-members superannuation funds, we always remember whose money it is and whose future we're looking after – our 1.1+ million members. They're the people who inspire what we do and how we do it, every day.

For us, that means being super helpful in ways our members want and sometimes in ways our members don't expect.

It starts with super returns. Backed by a team of investment specialists, we apply our expertise to help grow our members' retirement savings, so they can look forward to life after work.

A strong 9.3% p.a.[1] over 10 years is great news for those in our Future Saver High Growth option (where most members are invested).

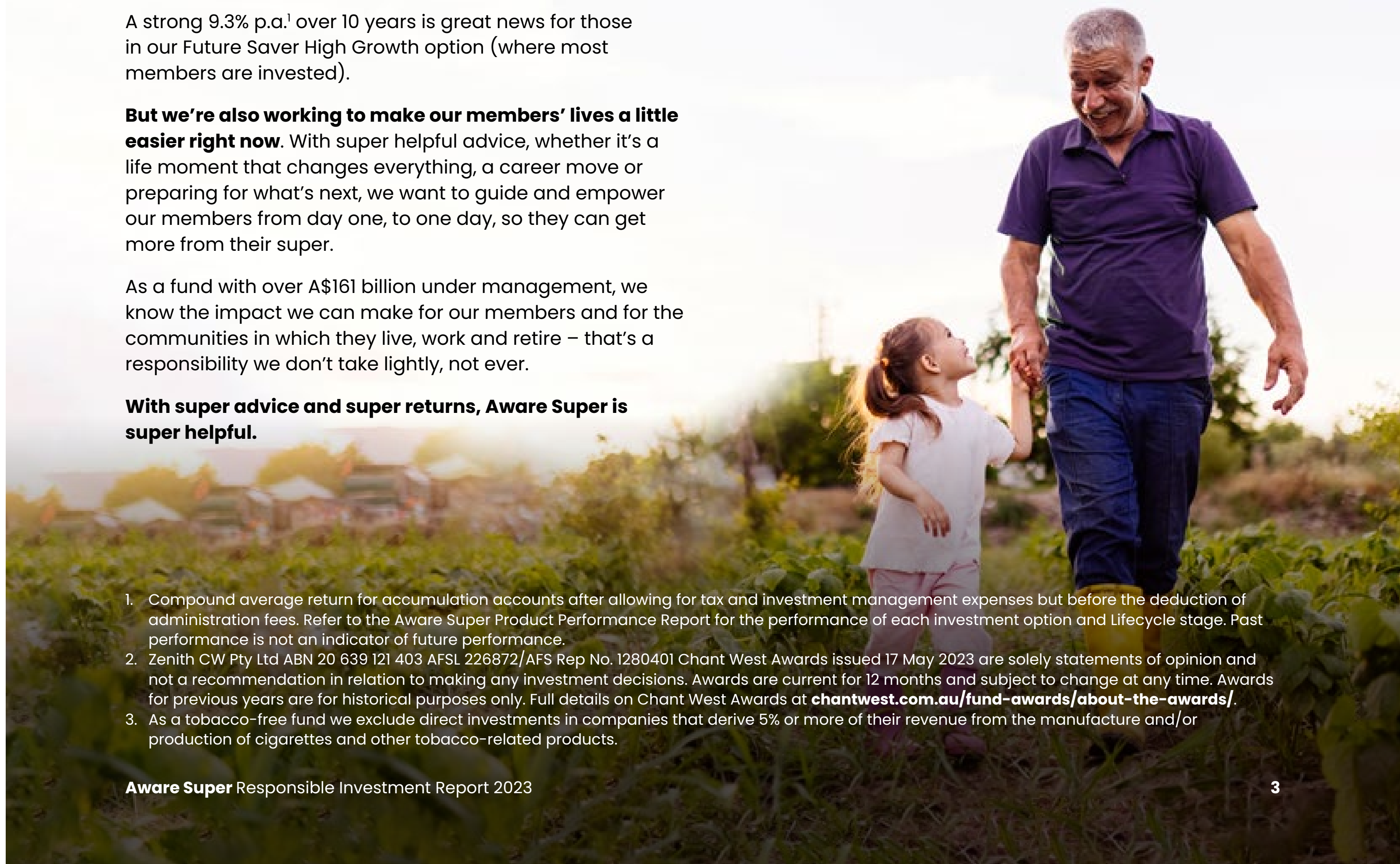
But we're also working to make our members' lives a little easier right now. With super helpful advice, whether it's a life moment that changes everything, a career move or preparing for what's next, we want to guide and empower our members from day one, to one day, so they can get more from their super.

As a fund with over A$161 billion under management, we know the impact we can make for our members and for the communities in which they live, work and retire – that's a responsibility we don't take lightly, not ever.

With super advice and super returns, Aware Super is super helpful.

Awards and recognition highlights

- 2023 Best Fund: Responsible Investment by Chant West[2]
- Rainmaker ESG Leader Rating 2023
- SuperRatings Generations Award 2023
- Ranked one of the top 10 funds in the 2023 GSR Leaderboard
- Ranked 7th (out of 59 global Pension Funds) in the Financial System Benchmark by the World Benchmarking Alliance
- One of only 30 global organisations invited to join the UN Global Investors for Sustainable Development Alliance
- Tobacco-free[3] since 2012



1. Compound average return for accumulation accounts after allowing for tax and investment management expenses but before the deduction of administration fees. Refer to the Aware Super Product Performance Report for the performance of each investment option and Lifecycle stage. Past performance is not an indicator of future performance.
2. Zenith CW Pty Ltd ABN 20 639 121 403 AFSL 226872/AFS Rep No. 1280401 Chant West Awards issued 17 May 2023 are solely statements of opinion and not a recommendation in relation to making any investment decisions. Awards are current for 12 months and subject to change at any time. Awards for previous years are for historical purposes only. Full details on Chant West Awards at **chantwest.com.au/fund-awards/about-the-awards/**.
3. As a tobacco-free fund we exclude direct investments in companies that derive 5% or more of their revenue from the manufacture and/or production of cigarettes and other tobacco-related products.

Our commitment to the United Nations Sustainable Development Goals

We work with the investment community and the companies we invest in on a range of initiatives that advance the adoption, integration and reporting of the United Nations (UN) Sustainable Development Goals (SDGs).

For example, we're involved with the UN Global Investors for Sustainable Development (GISD), where we collaborated with fellow members on the definition of **'Sustainable Development Investing'** adopted by the GISD Alliance. More on this in Measuring our positive impact, see page 20.

We've identified five material SDGs aligned to our responsible ownership activities.

SUSTAINABLE DEVELOPMENT GOALS

We're proud that through our investments and active ownership, we'll be contributing to progressing some of the UN SDGs. This helps us deliver strong long-term returns for our members, with societal and environmental benefits.

SDG 5: 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.

SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors.

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.

SDG 12: Ensure sustainable consumption and production patterns

12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

SDG 13: Take urgent action to combat climate change and its impacts

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

SDG 17: Strengthen the means of implementation and revitalise the Global Partnership for Sustainable Development

17.14 Enhance policy coherence for sustainable development.

17.16 Enhance the Global Partnership for Sustainable Development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the Sustainable Development Goals in all countries, in particular developing countries.

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 is widely recognised that achieving meaningful progress by 2030 will require trillions of public and private investment dollars.

Responsible ownership

Responsible ownership means we embed environmental, social and governance (ESG) considerations into our investment approach.

As a responsible owner we are investing for strong retirement outcomes for our members. We believe it is important to take ESG considerations into account because a company's approach to managing ESG risks and opportunities can have a meaningful impact on its viability and success. Over the long term, we believe companies and assets with sound ESG management are more likely to increase in value. By contrast, companies that manage ESG risks poorly have the potential to reduce shareholder value and may also harm the broader community and environment.

Our responsible ownership approach has five pillars:

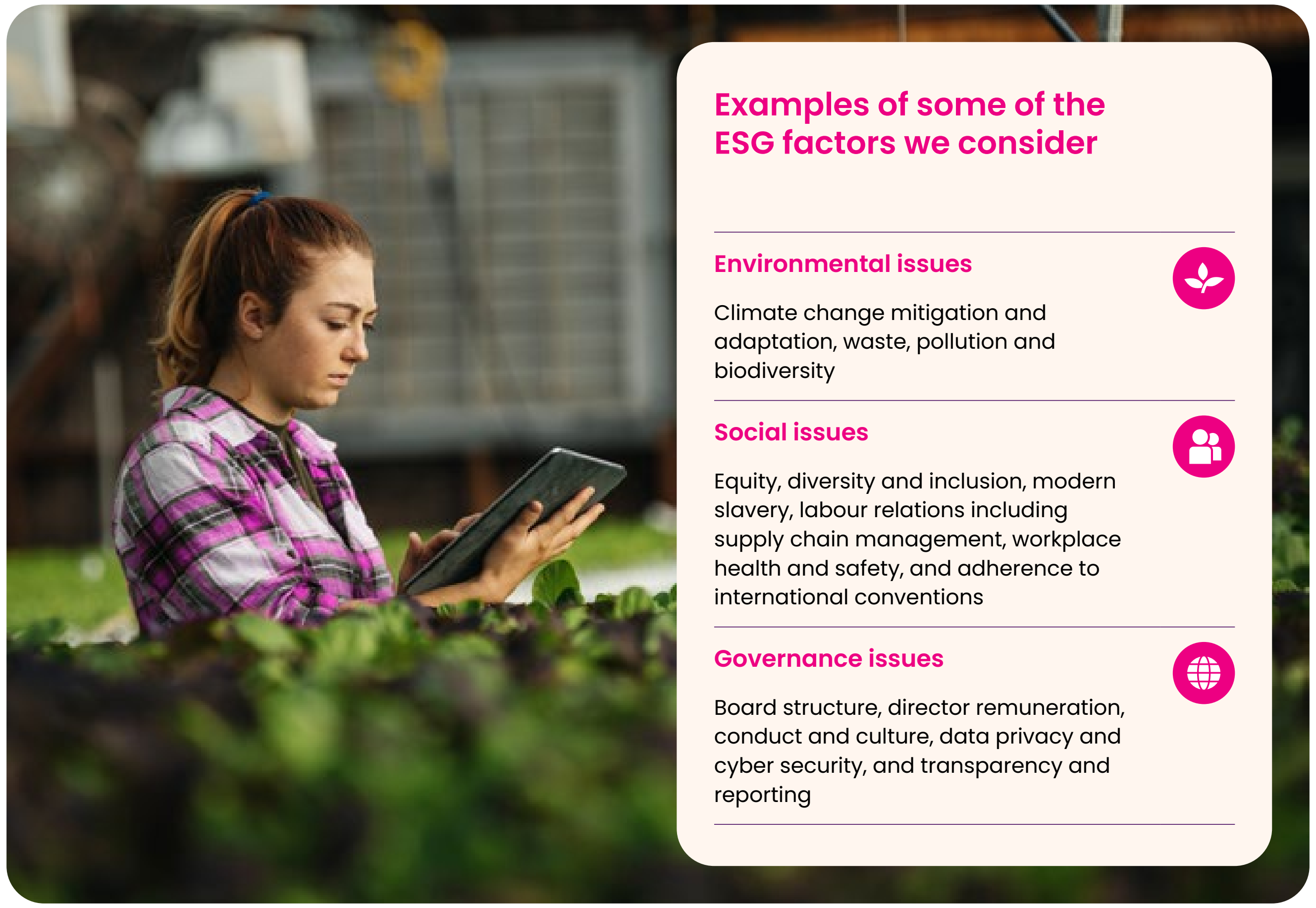
Pillar 1: Environmental, social and governance integration

Pillar 2: Advocacy and collaboration

Pillar 3: Stewardship: Engagement and voting

Pillar 4: Exclusions

Pillar 5: Measuring our positive impact



Examples of some of the ESG factors we consider

Environmental issues

Climate change mitigation and adaptation, waste, pollution and biodiversity

Social issues

Equity, diversity and inclusion, modern slavery, labour relations including supply chain management, workplace health and safety, and adherence to international conventions

Governance issues

Board structure, director remuneration, conduct and culture, data privacy and cyber security, and transparency and reporting

Responsible ownership
(continued)

Pillar 1: Environmental, social and governance integration

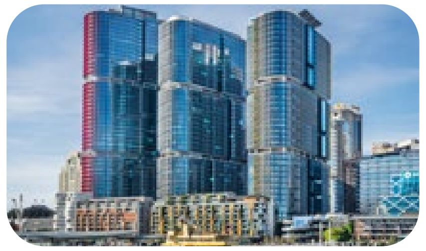
Investments

Our ESG integration approach means we assess and monitor ESG risks and opportunities across the fund's portfolio, throughout the life of an investment, from the initial investment due diligence and selection (i.e. before we make a new investment) and during our ownership.

How we apply ESG considerations

Our proprietary Sector Materiality Matrix tool guides our analysts through the material ESG risks or opportunities to consider for each sector (e.g. environmental risk management, cyber security, worker wellbeing and safety). The tool emphasises climate change, diversity and inclusion, and modern slavery. We use it across our asset classes to assess new opportunities.

Our ESG due diligence assessments for potential direct investments during the year included sectors such as clean energy, infrastructure, property, healthcare, telecommunications and technology. Examples of what we considered include:



Property

Environmental impact assessments (e.g. biodiversity, contamination), cultural heritage, physical climate risk.

Infrastructure

Worker and infrastructure users' health and safety, conduct and culture, modern slavery and supply chain, environmental impact, industry emissions intensity, alignment with our emission reduction goals, physical climate risk.

Healthcare

Corporate behaviour and controversies, customer health and safety, customer data and privacy, legal and regulatory management, waste and hazardous materials management.

Telecommunications

Physical climate risks on infrastructure, environmental compliance, worker and contractor health and safety, community engagement, data privacy.

Technology

Cyber security, data protection and privacy, legal and regulatory management, energy efficiency, anti-competitive behaviour, business ethics and fraud.

External managers

ESG integration extends to the way we select and partner with our external managers. We expect them to consider ESG as part of their investment activity and analysis, but allow them flexibility around how they apply ESG considerations. This is what we look for when we assess external managers:

Manager assessment criteria

Policy: policy and philosophy covering approach to responsible investment.

Resourcing: people and resourcing to implement policies and procedures.

Stewardship: processes for voting (where applicable) and how engagement assists decision-making and execution.

Integration: whether ESG factors are actively considered as part of the investment process.

Transparency: transparency and reporting of ESG activities, portfolio exposures, voting and engagement.

Alignment: alignment of firm and key professionals with long-term perspective and our specific Responsible Ownership Policy.

Climate change: approach to climate change from a risk and/or opportunity perspective. Commitments on climate targets.

Modern slavery: the manager's analysis and exposure of their corporate supply chain and their underlying investments' supply chain to the risk of modern slavery.

Corporate social responsibility: the manager's approach to their workforce, environmental and social footprint, and how they assess and measure progress in this area.

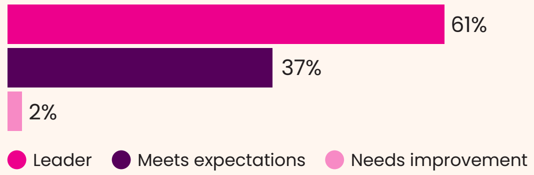
We score managers on the above criteria. Based on their scores, we label them as either needs improvement in their ESG approach, meeting standards or leading.

In the 2022/23 financial year, we reviewed 46 of our external fund managers to better understand their current approach. We also enhanced our monitoring process and revised the ESG manager assessment framework. This baseline review covered equities, fixed and credit income, liquid alternatives, private equity, infrastructure and property.

The review highlighted strengths and areas to improve. Working together with our managers on these will strengthen our partnership and deliver mutual benefits.

See the graphic below for ESG and climate ratings for managers.

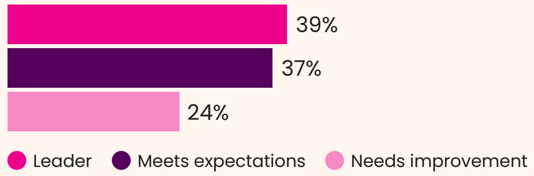
Manager ESG rating



Spotlight on climate change

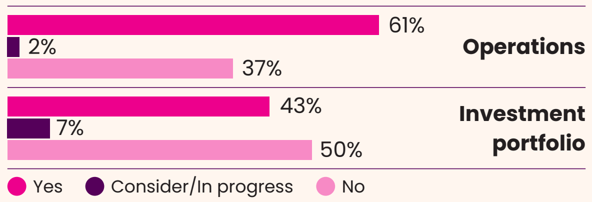
We focus on our managers' approach to managing the risks of climate change, including their commitment to net zero by 2050. In the 2022/23 financial year, 76% of those reviewed met or exceeded our expectations.

Manager climate rating



In addition, of the 46 managers reviewed in the 2022/23 financial year, 61% have committed to being net zero in their operations and 43% to being net zero in their investment portfolio.

Net zero commitment



Responsible ownership (continued)

Pillar 2: Advocacy and collaboration

We take a whole-of-industry approach to our responsible ownership approach.

We engage and collaborate with other like-minded investors and industry associations to help inform our understanding of ESG opportunities across a range of industries and sectors. We also engage with non-government organisations (NGOs), unions, community stakeholders and other representative bodies.

We're involved in other initiatives that are summarised below.

Investors Against Slavery and Trafficking Asia-Pacific (IAST APAC) is an investor-led initiative convened to engage with companies in the APAC region and promote effective action among them to find, fix and prevent modern slavery, labour exploitation and human trafficking. For more about IAST APAC, see:

iastapac.org

Federated Hermes EOS engages with international companies on our behalf. EOS consults with and provides submissions to regulators and stakeholders globally and participates in collaborative stewardship initiatives. In addition to climate change, human rights and capital, and board governance, they've now expanded their focus to digital rights, biodiversity and tax. For more about EOS, see:

hermes-investment.com

The Transition Pathway Initiative (TPI) is a global, asset owner-led initiative that assesses companies' preparedness for the transition to a low-carbon economy. The TPI is supported globally by 128 investors with more than US$50 trillion combined assets under management and advice. For more about TPI, see:

transitionpathwayinitiative.org

The Global Investors for Sustainable Development (GISD) Alliance is a group of leaders of major financial institutions and corporations from across the world. It's convened by the UN Secretary-General to deliver solutions that scale up private finance and investment to achieve the SDGs. For more about GISD, see:

gisdalliance.org

We've joined more than 700 global investors with more than US$68 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. For more about Climate Action 100+, see:

climateaction100.org

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 aligns with achieving a healthy society, environment and economy. For more about RIAA, see:

responsibleinvestment.org

We endorse the Task Force on Climate-related Financial Disclosures (TCFD), encouraging companies to disclose their climate change risks and opportunities in line with the TCFD recommendations, which we've adopted for our own reporting. For more about the TCFD, see:

fsb-tcfd.org

The Australian Sustainable Finance Institute (ASFI) is committed to realigning the finance sector to create a sustainable and resilient financial system by directing capital to support greater social, environmental and economic outcomes consistent with the ASFI Roadmap. We are a founding member of ASFI. For more about ASFI, see:

asfi.org.au

40:40 Vision is an investor-led initiative to achieve gender balance in executive leadership across all ASX200 companies by 2030. 40:40 stands for a ratio of 40% women/40% men/20% any gender – the composition we have for our own board. For more about 40:40 Vision, see:

hesta.com.au/4040Vision

The Investor Group on Climate Change (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. For more about IGCC, see:

igcc.org.au

We are a CDP signatory and a supporter of its 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. For more about CDP, see:

cdp.net/en

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 convened working groups, contribute to their annual benchmarking survey and publish our assessment and transparency report on our website. For more about PRI, see:

unpri.org

We are a member of the Australian Council of Superannuation Investors (ACSI) and a signatory to its Australian Asset Owner Stewardship Code. We also actively participate in ACSI working groups that address topics such as First Nations and cultural heritage, climate disclosures, just transition and governance guidelines. For more about ACSI, see:

acsi.org.au

Responsible ownership
(continued)

Pillar 3: Stewardship: Engagement and voting

Stewardship is an important element of our responsible ownership approach. It means actively monitoring and engaging with the companies we invest in and the fund managers we partner with. The objective of this engagement is to positively influence a company's policies, behaviours and practices 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 that enhances their performance over the longer term and are held accountable.

Engagement

We use our ownership rights to engage with companies. Where ESG management is not meeting industry standards, community expectations or whose conduct threatens their reputation and value, we work with the company to improve its ESG practices and policies. We believe this improves the company's ability to deliver long-term returns for our members.

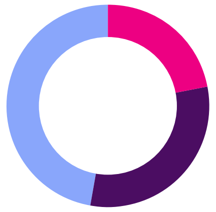
We engage directly with Australian companies, through our fund managers, partnering with the Australian Council of Superannuation Investors (ACSI) and other collaborative groups (e.g. Investors Against Slavery and Trafficking Asia Pacific (IAST APAC) and Climate Action 100+). When we engage with internationally listed companies, we partner with Federated Hermes EOS and our fund managers.

Australia

We engaged directly and in collaboration with ACSI with 194 companies across 330 meetings.

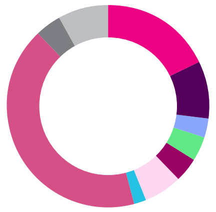
Engagement objectives
By theme

Environment	22%
Social	31%
Governance	47%



Issues and objectives engaged
ESG

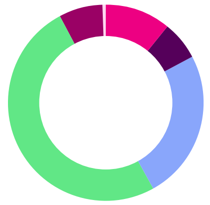
Climate change	18%
Safety	9%
Diversity	3%
Cultural heritage	4%
Conduct and culture	4%
Modern slavery and labour rights	6%
Governance	2%
Remuneration	42%
Circular economy	4%
Workforce and other social matters	8%



International

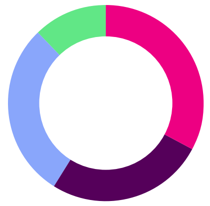
Companies engaged
By region

Developed Asia	61
Emerging and developing markets	36
Europe	138
North America	282
United Kingdom	41
Australia and New Zealand	2



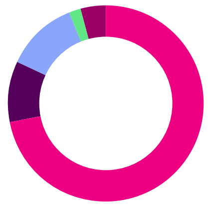
Issues and objectives engaged
By theme

Environmental	33%
Social and ethical	26%
Governance	29%
Strategy, risk and communication	12%



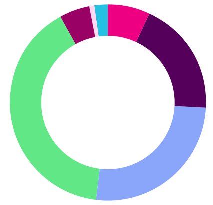
Issues and objectives engaged
Environmental

Climate change	72%
Forestry and land use	10%
Pollution and waste management	12%
Supply chain management	2%
Water	4%



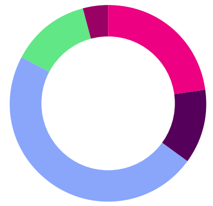
Issues and objectives engaged
Social and ethical

Conduct and culture	7%
Diversity	19%
Human capital management	26%
Human rights	40%
Labour rights	5%
Bribery and corruption	1%
Tax	2%



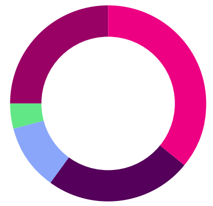
Issues and objectives engaged
Governance

Board diversity, skills and experience	23%
Board independence	12%
Executive remuneration	48%
Shareholder protection and rights	13%
Succession planning	4%



Issues and objectives engaged
Strategy, risk and communication

Business strategy	36%
Integrated reporting and other disclosure	24%
Audit and accounting	11%
Cyber security	4%
Risk management	25%



Responsible ownership (continued)

Pillar 3 (continued)

Diversity

We advocate for diversity among Australian boards and executive teams. We believe companies that aren't focused on diversity are missing out on opportunities for idea generation and innovation. Change at the top inspires change across the broader workforce. Diversity is a large contributor to a company's culture. It filters through from the board to management and the general workforce.

An inclusive workforce means everyone feels valued, which in turn can motivate positive behaviours. For companies to create long-term value, they need to recognise and embrace the value of diversity in their people. While our focus to date has been on gender, we are now looking to understand how companies consider diversity more broadly, including age, ethnicity, education and professional experience. Diversity is not only a social imperative – it's a competitive advantage.

Case study

South32

As an owner of South32 (S32), a focus for us is the issue of gender diversity in the company, particularly women in mining and their safety in the workplace. We met with members of the S32 board and management to understand how they identify issues and action change, and where improvements are being made.

Encouragingly, S32 has committed to employing 40% women across its workforce by 2029 and a similar ratio at senior levels by the 2026/27 financial year. The board acknowledged the issue of women's safety and has introduced improved incident reporting and new rules around alcohol consumption. Two women have moved into executive roles in the past 12 months.

Taking action on gender diversity in Australia

The number of women appointed to boards in Australia is growing, thanks to strong investor influence. Currently, women make up 33.6% of ASX300 board directors, with 11% in chair roles. A record 51 of the 101 appointments to ASX100 boards in 2022 were women. Very few boards remain without any women directors. More companies are also setting targets to reach a 40:40 women to men split in executive ranks.

However, there are only five boards with more than 60% women, compared with 170 companies with more than 60% men. The higher the ASX position, the more women are represented in executive leadership teams. We'll continue to prioritise engagement on this topic to reach better gender balance on ASX boards.

Our commitment to promoting gender diversity meant we chose not to support the re-election of existing directors at three companies this 2022/23 financial year. We also actively participate in the collaborative investor-led diversity initiative known as 40:40 Vision, which encourages companies to set 40:40:20 gender balance targets in executive leadership by 2030.

During the 2022/23 financial year, we also engaged directly with six ASX-listed companies on gender diversity across the information technology, healthcare, industrials and consumer sectors. Encouragingly, several boards with low levels of diversity appointed skilled women directors during the year, including Goodman Group, ARB, Flight Centre, IDP Education, Waypoint REIT and Codan.

Modern slavery

Respect for human rights is strongly associated with value chain resilience and business stability. We are increasingly aware of and concerned about the significant operational, financial, legal and reputational risks companies face when they fail to manage human rights risks.

These business risks include potential project delays and cancellations, lawsuits and noncompliance with emerging human rights-related regulation, scrutiny from national-level grievance mechanisms, significant fines, productivity and recruitment challenges, and negative press.

A business that does not act on the risks presented by a failure to respect human rights (which can be in the form of modern slavery, labour exploitation and human trafficking), risks its business and supply chains being unsustainable. The neglect of these issues also threatens a company's social licence to operate.

Since the *Modern Slavery Act 2018* (Commonwealth) was introduced, we've engaged with companies to understand how they manage modern slavery risks in their operations and supply chains. During the 2022/23 financial year, we engaged with 24 ASX-listed companies, directly and collaboratively via ACSI and IAST APAC. This ongoing program has been received well by companies, increasing awareness and assisting to inform their approaches to assessing, identifying and monitoring modern slavery risks in their supply chain.

During the 2022/23 financial year, the Australian Government also conducted a review of the *Modern Slavery Act* (the Act). Public consultation was at the centre of this review and ACSI and IAST APAC provided submissions on our behalf. The review received 136 submissions as well as responses to online questionnaires and surveys, and held 38 consultation meetings with 285 organisations, as well as 65 meetings with government officers in Australia and abroad.

While these consultations didn't (yet) yield evidence the Act improves life for people in modern slavery, it highlighted that business is taking the Act and reporting obligations seriously. Change is happening through training, supply chain mapping and auditing, and industry collaboration.

Understandably, there were also views that more can be done. The review made 30 recommendations to make the Act more effective.

Key aspects of our submission via ACSI and IAST APAC included:

- establishment of an Anti-slavery Commissioner at the federal level
- introduction of penalties and fines for non-compliance with reporting requirements
- introduction of an ongoing obligation on reporting entities to conduct ongoing due diligence and report findings.

Case study

Consumer staples in the spotlight

Woolworths became the first entity to disclose and discuss publicly an instance of modern slavery in its 2021/22 financial year modern slavery statement. As well as identifying the incident, the company reported on remediation strategies it will undertake. Woolworths is seen as best practice for its approach. Our engagement with another ASX materials company during the year indicates it will report a case in its 2023 statement. As companies start to disclose cases, we expect further progress in supply chain management.

Coles Group has responded well to ongoing engagement by substantially improving reporting in its recent modern slavery statement. Coles accepts it needs to better disclose its supply chain mapping and risk mitigation strategies. The Coles board supports more resourcing in this area, including third-party audits, more staff to focus on ethical sourcing, supplier audits and commissioning research into accommodation standards in the horticultural sector. Overall, Coles has shown it's willing to take a more robust approach to challenges relating to modern slavery.

IAST APAC

Investors Against Slavery and Trafficking Asia Pacific

Investors Against Slavery and Trafficking Asia Pacific (IAST APAC) 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 their value chain. IAST APAC currently represents A$7.8 trillion in funds under management across 38 investor members. We are a founding member and sit on the steering committee. We continue to lead and support investors on selected ASX companies identified by the group. Part of this initiative includes ongoing education for its members and updates on the risks of modern slavery in sectors and industries, locally and internationally.

For more information, see the IAST APAC Annual Report:

iastapac.org

Responsible ownership (continued)

Pillar 3 (continued)

First Nations rights

We're a member of the ACSI First Nations Rights and Cultural Heritage Risk Management Working Group, which seeks to better understand the financial risks when companies don't engage well with First Nations peoples. Using guidelines developed from the working group's research, we measured 11 companies on their approach to First Nations peoples' engagement. We found two lacking in areas, such as compensation and consultation, and we'll work with them to enhance these aspects.

Aware Super has committed to reporting on how we engage with companies on issues related to First Nations land rights and cultural heritage as a part of our Reconciliation Action Plan (RAP). For more information, see the Responsible ownership section of our annual report:

aware.com.au/annualreport2023

Executive remuneration

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

Remuneration practices can provide insight into a company's culture, performance and strategy. Well-structured remuneration supports a company's long-term success. Meanwhile, excessive pay, persistently high bonus outcomes and a lack of shareholder alignment can negatively affect a company's licence to operate, and our members' investments.

In the 2022/23 financial year, the average realised ASX100 CEO pay fell to its lowest level in the nine years that data has been collected. The median CEO bonus fell from the 2020/21 financial year record of 76.7% to 71% of the potential maximum.[4] This is in the context of a tight labour market and the rising cost of living.

Those who saw a growth in pay were company secretaries (24% increase in large, listed entities) and risk managers (15% increase). Bonuses were also higher in these roles, with risk managers receiving up to 45% of their fixed salary and general counsel and company secretaries receiving increases of 49% on average,[5] reflecting a heightened risk (particularly cyber) environment. About 80% of ASX200 companies now link remuneration to some form of ESG[6] performance criteria, up from 71% in 2021, showing ESG outcomes are a growing priority.

Engagement with companies on executive remuneration is a key focus for Aware Super.

We engaged directly and with ACSI with 72 ASX-listed companies across all sectors of our portfolio on the following:

- transparent disclosure on remuneration outcomes
- composition of remuneration incentives (short-term versus long-term incentives)
- adoption of remuneration tied to ESG performance criteria
- use of board discretion (upwards or downwards).

We've seen ongoing scrutiny of corporate culture, with boards held accountable for underperformance. During the 2022/23 financial year, we voted against 37 remuneration reports (out of 304) and 25 ASX200 companies received a strike.

Voting

We own shares in many listed companies and vote on a diverse range of matters at company meetings. We use our voting rights to support resolutions that seek to enhance value for our members. These votes cover areas such as board accountability and structure, executive remuneration, human rights, diversity and climate-related disclosure and action.

Australian shares

When voting on resolutions for Australian-listed companies, we typically consider recommendations from our voting service provider, ACSI, as well as the opinion of our active investment managers. In the case of shareholder proposals, we also endeavour to engage with the proponents before voting. In addition, before making our final decision, we always consider the company's response to any engagements we have conducted with them.

International shares

When voting on resolutions for international-listed companies, we use recommendations from CGI Glass Lewis and several of our investment managers vote directly.

Each year, we abstain from a small number of votes, including situations where we must choose from a list of directors who we have little insight on. For shareholder resolutions, we might abstain from voting where we can't support the specifics of the resolution but where we expect the company to do more on the issue.

We've seen an increase in shareholder resolutions around environmental and social issues. We supported 74% of these, including proposals regarding companies reporting on their lobbying activities, diversity and inclusion, cultural heritage and climate-related activities. We also supported resolutions asking companies to undertake a racial equity audit, pay the living wage, increase transparency on modern slavery risk and reduce greenhouse gas (GHG) emissions.

For more information, including a summary of our voting outcomes and detailed reporting, see:

aware.com.au/proxyvoting

Australian shares	
Meetings	315
Resolutions voted on	1,831

International shares	
Meetings	3,255
Resolutions voted on	38,095

12% of votes were against management recommendations

X

Pillar 4: Exclusions

Integration of ESG in the investment process prioritises assessing and taking action on the impact of ESG issues on a company's value, rather than excluding companies or sectors based on ethical grounds. Our responsible ownership approach has generally not been to exclude companies or sectors, but to engage with companies and use our voting rights to influence the behaviour of investee companies. However, we might exclude a sector or specific stock in the following circumstances:

- where an investment is inappropriate for the fund to the extent that it may have a negative impact on the reputation of the fund
- if the investment would lead to contravention of international treaties or conventions that Australia is a signatory to
- if it is not deemed possible to influence a company through engagement or proxy voting.

Industries we don't invest in

Manufacturers of tobacco or cigarettes

In 2012, we excluded direct investments in tobacco manufacturers and/or producers (including subsidiaries, joint ventures and affiliates) that derive 5% or more of their revenue from the manufacture and/or production of tobacco products.

Thermal coal miners

From 1 October 2020, we excluded direct investments in companies that generate 10% or more of their revenues directly from thermal or energy coal mining.

Controversial weapons

From 1 October 2020, we excluded controversial weapons. This includes direct investment in any company that derives revenue from the manufacture and/or production of the whole component of chemical weapons, cluster munitions, land mines and depleted uranium.

4. *CEO Pay in ASX200 Companies*, July 2023, ACSI.
5. *2023 Board & Executive Remuneration Report*, June 2023, Governance Institute of Australia.
6. Addressing ESG concerns on the ASX 200, May 2023, *Money Management.*

Responsible ownership (continued)

Pillar 5: Measuring our positive impact

One of the real opportunities for us as a responsible owner is developing a way to measure and monitor the impacts of our investments. One way we have responded to this opportunity is by creating our Positive Impact Measurement Framework. In June 2019, we began measuring the positive impact of several assets. While quantitative output measures of potential impact provide one assessment, we recognise not all impacts can be clearly quantified. To overcome this, we have also developed a Sustainable Development Investing Assessment methodology. An overview of these methods is provided below.

Positive Impact Measurement Framework

We aim to consider the positive impacts of our investments as the 'material effects on people and planet'. Measuring this positive impact is critical to ensuring our investments are effective at instigating and maintaining change, compared to what would've happened without financing. However, measuring the true impact of investments requires determining the positive and negative effects. We also need to use those findings to create a dynamic impact management process through engagement with the investee companies to maximise the positive impacts and minimise the negative ones. We recognise this is challenging to do well in an authentic way and we seek to build on our current approach year-on-year. To that end, we regularly review our impact and how we measure and track it so we can improve.

Our framework identifies social and environmental themes, sub-themes and activities.

Positive social impacts	Examples
Investing in people and the community	
Job creation for all	Investing in products or services that contribute to the new jobs growth that wouldn't necessarily have occurred without this investment.
Access to improving sustainable social and human services	Affordable housing, aged care, healthcare or education services including early childhood – with consideration to providing access for disadvantaged, vulnerable or low-income people.
Sustainable and smart infrastructure	Investments facilitating cities, towns and communities to reduce emissions intensity and increase resilience to climate change, including: • green buildings • smart infrastructure • future utilities and transport solutions.
Protecting our planet	
Waste and pollution reduction	Investing in solutions that: • reduce waste to landfill other than food • reduce or avoid land pollution e.g. avoiding toxic chemical use • reduce or avoid water pollution.
Food and water security	Investing in food or water infrastructure that contributes to lowering food waste, water use or water waste.
Sustainable agriculture	Ecologically sustainable agriculture with consideration to: • land use and sustainable agricultural techniques and products • sustainable food production, including sustainable packaging • crops, livestock and fish, including animal welfare.
Climate change solutions	Investing in infrastructure, products or services producing: • renewable energy • energy efficiency • alternative energy e.g. waste to energy.

We now have over A$2 billion committed to renewables and climate solutions. Key investment activity for the 2022/23 financial year included:

Stockyard Hill Wind Farm

We acquired a 24.5% interest in Australia's largest operational wind farm, alongside Palisade Investment Partners. Stockyard Hill has 149 turbines producing enough renewable energy to power about 365,000 homes each year.

Intera Renewables platform

We invested in a platform of wind and solar assets managed by Palisade Investment Partners. The platform includes four wind farms and one solar farm across Queensland, South Australia, Victoria and Tasmania, with a combined generation capacity of over 830 MW. The platform is expected to grow as it invests in more projects across Australia.

Responsible ownership
(continued)

Pillar 5 (continued)

For the 2022/23 financial year, we assessed selected investments to measure their positive impacts using our framework. Building on prior reports, we're now measuring the positive impact of 25 assets. We intentionally limit the number of assessed investments in our framework to allow in-depth and genuine analysis.

Source: Aware Super, 2023. Note, these figures show Aware Super's proportional share of the positive outcomes based on our % share of equity within each asset.

Positive social Impact

452
Key workers have access to affordable housing

1,476
People benefited from health and wellbeing initiatives[7]

49,484
Hours of Employee Assistance Program counselling was provided

20.6 million
New public transport passenger journeys (62.8 million km travelled)

22
Additional jobs created in rural Australia

7. Some of the data provided has been estimated.

Climate change solutions

2,138 GWh
Renewable energy generated (enough to power approximately 388,000 homes in Australia for a year)[8]

781,000 tonnes
CO_2 emissions avoided through renewable energy generation[9]

8. This calculation is for illustrative purposes and has been undertaken with the best data available on the average NSW household's electricity usage. For comparison purposes, the overseas renewable generation has been converted to the equivalent number of Australian houses.
9. This calculation has been undertaken with the best available data on the grid emissions intensities of the various electricity grids our assets are in. We recognise these are not definitive calculations and are therefore for illustrative purposes only. Additionally, it is anticipated that as the grids of various nations decarbonise the emissions intensity will naturally come down too, therefore this emissions avoided calculation therefore should also decline over time per GWh of electricity generated.

Sustainability and waste avoided

63 hectares
Land where food is grown sustainably

488 hectares
Protected streams[10]

821 hectares
Protected habitat[10]

20,895 tonnes
Scrap metal processed and sold for re-use

551 tonnes
End-of-life tyres processed, resulting in:

110 tonnes of steel reclaimed

20 tonnes of char reclaimed

62,118 tonnes of fuel reclaimed

10. Part of the data presented is as at 30 June 2022 as the 2022/23 financial year data will not be available until March 2024.

Responsible ownership
(continued)

Pillar 5 (continued)

Sustainable Development Investing Assessment

Our Sustainable Development Investing Assessment methodology uses the sustainable development investing (SDI) definition to assess the impact of a selection of investments during the 2022/23 financial year.

As one of its first deliverables, the Global Investors for Sustainable Development (GISD), a UN-formed alliance we're a part of, created a definition of SDI aimed at qualifying investments that align with the UN SDGs. We adopted this definition and created an assessment framework, determining the positive and negative impacts of an investment on SDGs.

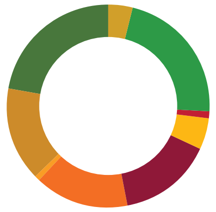
Although we capture our positive impact in two ways, we believe both methodologies play important roles in assessing the impact our investments have on the environment and society.

For example, our due diligence approach in private equity and our direct credit income investments assesses whether an investment meets the GISD SDI definition.

Over the past four years in our private equity portfolio, we've identified 20 companies and five funds, representing A$800 million of investment capital, that are contributing positively to the SDGs. The SDG contribution by those investments is shown to the right.

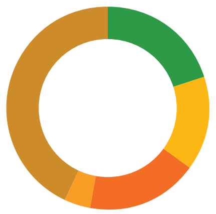
In the 2022/23 financial year, we evaluated eight direct credit income investments, worth A$627 million, that contribute positively to the SDGs. Their SDG contributions are also shown to the right.

Private equity SDG-aligned investments



Goal 2	4%	Goal 9	15%
Goal 3	22%	Goal 11	1%
Goal 4	1%	Goal 12	15%
Goal 7	5%	Goal 13	22%
Goal 8	15%		

Credit income SDG-aligned investments



Goal 3	20%	Goal 11	4%
Goal 7	15%	Goal 12	43%
Goal 9	18%		

We use the SDI definition in our due diligence process to assess prospective private market investments. These investments cover infrastructure, property, private equity and credit income. Our investment analysts will assess:

- Does the investment positively contribute to the SDGs?
- Does the investment's positive contributions outweigh any negative impacts on the SDGs?
- Are the company's business practices and reputation aligned with the SDGs?
- Is the investment SDI consistent?

We often show positive impact through case studies, as it can be challenging to measure outcomes in numbers.

Case study

Private equity – BioPak

Contributed to SDG 12

We applied our SDI assessment to our co-investment with Five V Capital in BioPak.

BioPak is a supplier of branded compostable packaging for food services. It uses compostable materials such as paper, bioplastics, plant fibre and wood to create products such as takeaway containers, hot/cold cups and cutlery. As a headline SDG and indicator, we identified:

- Goal 12: Ensure sustainable consumption and production patterns.
- Target 12.5: By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

We assessed two potential negative impacts from BioPak's operations: (1) excess water usage and (2) modern slavery risks from the manufacturing of their products. However, we determined these were managed and did not offset the positive contributions under the headline SDG.

We will continue to evaluate BioPak's contribution to the SDGs, focusing on the amount of plastic avoided. In the 2022/23 financial year, BioPak's products equated to 23,226 tonnes of plastics avoided.[11]

On this basis, the investment met the SDI definition.

11. Source: *BioPak Sustainability Report 2023*

Climate change

Climate change poses complex risks to society, nature and the economy – and our members' retirement outcomes. Our investment approach looks at present and future climate risks.

Since 2015, we've actively considered the impact of climate change in our investment approach, drawing on the latest climate science and global best practice.

Through our focus on risk and opportunity, we aim to secure long-term returns for our members while positively impacting society and nature.

Our Climate Change Portfolio Transition Plan (Transition Plan) was approved by the board in early 2020 and was updated in the 2022/23 financial year. The updated plan provides the framework to guide the action needed to navigate the systemic and structural shifts ahead.

For more on our approach to climate change, see:

aware.com.au/transitionplan

Governance

Our fund's long-term success depends on strong governance and how we effectively manage the financial risks arising from climate change. Key roles in our governance arrangements are summarised below.

Aware Super Board	The 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 board also approves our Investment Beliefs.
Investment Committee	The Investment Committee is a nominated sub-committee of the board and has delegated authority to oversee certain elements of the Investment Governance Framework. Our responsible ownership approach (including our response to climate change) is embedded in the Investment Governance Framework, including our Investment Beliefs, the Investment Policy Statement and Responsible Investment Policy.
Chief Investment Officer and Head of Responsible Investment	Our Chief Investment Officer (CIO) is responsible for the implementation of our Transition Plan. The day-to-day work is overseen and managed by our Head of Responsible Investments. They both frequently update the board and Investment Committee about our efforts to manage climate risk as per our Transition Plan. The board and Investment Committee receive an annual review detailing our progress toward the Transition Plan's goals and actions.
Risk	The Chief Risk Officer is responsible for setting Aware Super's overall ESG risk appetite (which includes climate risk) and reporting against those risks to the Investment Committee and board.
Responsible Investment team	The Responsible Investment team, including the Manager, Climate Change, comprises ESG experts embedded within the investment team. They focus on the day-to-day implementation of our Transition Plan, alongside all the investment sector teams.
Investments team	The following stakeholders work alongside the Responsible Investment team on climate-related investment due diligence and implementation of the Transition Plan and during investment ownership: • investment teams, including listed equities, infrastructure, property, private equity, credit, fixed income and investment strategy • investment managers • direct asset oversight and enhancement team.

Oversight and approval bodies

Trustee Board and Investment Committee				
Investment Governance Framework	**Investment Beliefs**	**Investment Policy Statement**	**Responsible Investment/ESG Policy**	**Climate Change Portfolio Transition Plan**
Combines the systems, structures, policies, processes and people employed to meet our member responsibilities. Ensures a disciplined approach to investment risk management, which incorporates ESG-related risks, including climate.	Being a responsible owner adds value. This comes from managing risks, including those related to ESG and climate risk.	Sets out the fund's investment policies, including objectives, strategy, our responsible investment and ESG approach, as well as our approach to managing the financial risk due to climate change.	Describes the approach to ESG issues from an investment perspective and specifically, our approach to climate change.	Provides a framework of recommendations and targets for us to manage our climate risk to help contribute to the large, systemic and structural changes that climate change requires.
Responsible for implementation – CIO/Head of Responsible Investments				

Strategy

This decade is pivotal to tackle climate change. In 2022, the Chair of the Intergovernmental Panel on Climate Change (IPCC) stated: 'We are at a crossroads. The decisions we make now can secure a livable future.[12] In 2023, the IPCC released its **final summary of its sixth assessment cycle**[13] report. It stresses the closing window to secure a sustainable future and calls for substantial, prolonged emission cuts across all sectors.

Investment is essential to drive decarbonisation and climate action. Such investment should target emissions reduction and adaption to the inevitable consequences of climate change. The choices made this decade by nations, businesses and individuals will determine future global warming, extreme weather events, biodiversity preservation and human health impacts.

Our core purpose is to grow our members' retirement savings. Our approach to climate change aligns with this by targeting investments that are sustainable in the long term. We evaluate potential investments not only on current emissions, but their commitment and roadmap to decarbonise. This doesn't mean investing in low-emissions companies only. We may also invest in high-emission companies striving for lower emissions and needing financing to do so.

Our portfolio includes those companies that are already on their way to transitioning their business to low emissions and those companies that are going to find it harder to transition, but that we believe can transition over time with the right economic support. Our role in supporting the economy to a greener future is why we don't exclude high-emitting companies outright.

12. **The evidence is clear: the time for action is now. We can halve emissions by 2030**, media release, 4 April 2022, IPCC.
13. **AR6 Synthesis Report: Climate Change 2023**, March 2023, IPCC.

Climate change (continued)

Our updated Transition Plan has five pillars:

1. **Decarbonisation**
2. **Portfolio transition and resilience**
3. **Investing in climate solutions**
4. **Being a leader in company climate engagement**
5. **Having an influential voice**

The five pillars align to our purpose to deliver the best returns for our members and also our goal to reach net zero portfolio emissions by 2050.

As global climate efforts evolve and new scientific insights emerge, our approach will continue to adapt. We review our climate strategy each year and provide updates on our progress, using a framework aligned with the Task Force on Climate-related Financial Disclosures (TCFD).

Managing climate risks and opportunities

Our risk management process covers investment, operational, reputational and regulatory risks. While the Chief Risk Officer is the ultimate custodian, it's the responsibility of all employees to know and integrate the risk management framework into their roles.

During the 2022/23 financial year, climate-related risks were elevated from being solely monitored and managed within the investment risk capability, to being incorporated into the wider risk taxonomy, as part of the broader organisational ESG material risk. As part of our risk management framework, we assess material risks quarterly. The Audit, Risk and Compliance Committee along with the board oversees these evaluations and if any risks exceed our appetite we plan corrective action. We now treat climate change as a business unit risk under each group executive – encouraging our team to consider the complex, interrelated nature of climate risk more widely across our fund.

Our climate risk definition spans physical, transition and liability risks. This includes risk identified in due diligence and our investment ownership, and our business operations and third-party service providers.

To develop our climate risk roadmap, we voluntarily participated in the Australian Prudential Regulation Authority (APRA) Climate Risk self-assessment survey. Measuring our approach against our regulator's expectations provided valuable insight, with our goal to keep exceeding the current regulatory recommendation.

Managing investment climate risk sees us draw on a range of frameworks, processes and tools. A summary of our climate risk identification process follows.

Risk identification process

Fund managers	• New fund manager assessments, including approach to climate change. • Annual review includes a separate climate questionnaire of how the fund managers manage climate risk in their own business operations in addition to within the full investment lifecycle. • Ongoing engagement with the appointed fund managers, including specific climate risk assessment, monitoring and management examples.
Investments	• Initial ESG and climate assessments, bespoke to each investment sector. • Engagement meetings, where climate risks are discussed. • Assessment and consideration of climate-related shareholder resolutions. • Investment monitoring. • Annual review of investment, where appropriate.
Climate scenario analysis	• Undertake climate risk analyses, to better quantify potential future climate-related financial risks under different climate scenarios, across sectors. This analysis continues to be developed year on year.

Climate risks considered include:

Physical risks

So far this century (including 2023 to date), every year but one has set records as the hottest year.[14] This warming comes with extreme weather events, warming oceans, melting polar ice, wildfires, species extinction and biodiversity decline and loss. Limiting human-caused global warming needs rapid reduction in greenhouse gas (GHG) emissions, with net zero emissions reached by 2050 or shortly after. Emissions already in the atmosphere will continue to drive average temperature rises, making physical climate risks a concern for decades to come.

We're aware of the growing physical risks and evaluate the implications for our investments over the short, medium and long term.

However, assessing physical climate risks is a challenge. Understanding exactly where, what and when regions and investments may be affected is not possible. However, evolving methodologies now allow us to overlay potential physical climate scenarios onto regions and investments based on location. The significance of this approach is the ability to then start to assess the possible adaptations or capital expenditure that our investments may need to ensure our investments remain resilient.

We've also expanded our desktop assessment during due diligence to determine potential acute and/or chronic physical risks in prospective direct investments. Where needed, we collaborate with experts to assess potential physical climate hazards and their conceivable financial impacts at various junctures over the next 70 years.

We continue to evolve our approach to physical climate risk. Conducting rigorous due diligence on investments seen as high risk is only set to grow more important. This diligence is essential, as it informs capital expenditure plans to strengthen that asset's resilience to risk.

Transition risks

We evaluate the risks and opportunities in the shift towards a low-carbon economy across individual assets, investment sectors and our entire portfolio. These remain wide reaching, encompassing factors such as considerations of the costs of polluting (e.g. carbon pricing), changes in technology advancements driven by climate change, shifts in consumer preference towards products (e.g. electric vehicles), societal pressures and the looming risk of stranded assets – investments that are no longer viable in a transitioning world.

In the 2022/23 financial year, we continued to develop our framework to assess transition risks in companies and investment sectors. Globally, there is growing regulatory and policy pressure to include such scores as part of investment analysis. We're keeping pace with these changes.

Litigation risks

The global trend of climate litigation is increasing and we're not exempt from such legal challenges. Our aim is to diligently assess, monitor and manage climate-related risks within our portfolio and transparently report on our actions in order to achieve the best financial outcomes for our members in a dynamic and changing world.

Opportunities

We continue to pursue investments in sectors well-placed to participate in the low-carbon transition. This may include opportunities in renewable energy, energy storage solutions, electric vehicle infrastructure and other technology and transportation solutions. We also work with companies on their path to decarbonisation. This may involve supporting higher-emitting companies we believe can reduce their emissions over time, with investment.

14. **Earth just had its hottest June on record**, 13 July 2023, National Oceanic and Atmospheric Administration (NOAA).

Climate change (continued)

Climate-related metrics and targets

In the 2022/23 financial year, we undertook a refresh of our Climate Transition Plan. This plan plots our path to decarbonisation through measurable, timebound emissions reduction goals and targets.

Aware Super will support an orderly and equitable transition to net zero GHG emissions through its investment activities, stewardship and advocacy. Our overarching targets to support that commitment are to:

- strive to achieve net zero GHG emissions in our portfolio by 2050
- support an economy-wide reduction in GHG emissions of 45% by 2030
- achieve a 45% reduction in Scope 1 and 2 emissions intensity of our investment portfolio by 2030.

Each Aware Super sector portfolio will also have its own 2030 Scope 1 and 2 decarbonisation targets, designed to support the targets above.

Our five-pillar climate strategy, along with the initiatives under each pillar, position us to meet these targets.

Our five-pillar climate strategy

Purpose	To be an active contributor to climate action through decarbonisation and transition of Aware Super's investment portfolio, while delivering member outcomes				
Vision	Strive for Aware Super's investment portfolio to be net zero emissions by 2050 and to be an active participant in supporting an equitable economy-wide net zero transition				
Pillars and themes	Research to support the climate strategy				
	Pillar 1: Decarbonisation	**Pillar 2:** Portfolio transition and resilience	**Pillar 3:** Investing in climate solutions	**Pillar 4:** Be a leader in company climate engagement	**Pillar 5:** Having an influential voice

Details about the work behind each pillar is summarised on the following pages.

We will be transparent about the progress we make towards our overarching targets, providing regular updates to our board and (at least) yearly updates to our members. To reach our long-term targets, we must set short- and medium-term milestones that guide us towards net zero. We will review our overall target in the 2024/25 financial year and every five years after, in line with global best practice.

We know the journey ahead will be long and uncertain. Nevertheless, we are determined to make sustainable progress that not only delivers the best financial returns to our members, but also considers how people and planet are affected by climate change and shift to a low-carbon economy.

Our five-pillar approach has a central theme: moving from intent to action.

Pillar 1: Decarbonisation

Pillar 1's primary aim is to reduce emissions across our portfolio. This involves reducing emissions at a sector level, within each investment and encompasses our broader efforts to reduce emissions in the economy. Pillar 1 outlines the methodologies for tracking portfolio emissions and projecting decarbonisation progress into the future.

Strategic initiatives include:

- develop a bespoke, dynamic decarbonisation roadmap and pathway to achieve net zero portfolio emissions
- set, measure and achieve credible short-, medium- and long-term emissions reduction targets in all asset sectors
- establish a meaningful framework to measure, manage and forecast investment GHG emissions
- undertake an annual assessment of progress towards decarbonisation goals.

When it comes to measuring our portfolio emissions, we acknowledge our methodology and dataset will continue to improve. In next year's report, we plan to share our progress in this area.

To support our targets, we've set 2030 investment sector targets for the Infrastructure, Property, Australian and International Listed Equities sectors. In the coming year, we should finalise targets for our Private Equity and Credit Income sectors. We're also continuing to factor in current and forecast emissions into our due diligence and investment decisions.

Progress against these targets is evident in our listed equities portfolio. As at June 2023, the portfolio has seen a 47% reduction compared with the June 2020 baseline.

Sector approach to setting targets – Direct Assets

Our investment team has developed a Direct Assets Climate Transition Plan, supported by a practical guide and asset maturity scorecard, to measure progress. The plan sets out the framework for the decarbonisation of our direct asset portfolios.
Key aspects include:

- an initial emphasis on reducing operational (Scope 1 and 2) emissions from assets in the Infrastructure and Property portfolios
- clearly defined decarbonisation targets and their boundaries
- establishment of a detailed roadmap and plans for expanding the scope to include Scope 3 emissions.

The Climate Transition Guide:

- defines processes and tasks for the investment teams to operationalise the plan
- covers climate transition risk and decarbonisation management throughout the investment lifecycle
- guides use of the Climate Transition Maturity Scorecard.

The asset Climate Transition Maturity Scorecard:

- provides a consistent methodology to assess an asset's current decarbonisation capabilities and sets out expectations for improvement
- defines criteria for an asset to be aligned with our climate transition objectives
- sets out a scoring approach to track progress by asset and objective.

Already most of our assets have climate transition plans (or at least targets) that are board approved, and they are well into implementation. We work closely with all of our direct assets to develop and implement their plans.

Climate change (continued)

Pillar 2: Portfolio transition and resilience

Pillar 2 revolves around two primary aims:

1. Ensure our portfolio is well positioned to thrive – maximising returns and minimising risk in the transition to a low-carbon economy.
2. Equip the portfolio to avoid where possible or become more resilient to the physical consequences of climate change.

Climate resilience means being able to 'anticipate, prepare for, and respond to hazardous events, trends, or disturbances related to climate'.[15] This means acknowledging the present temperature rises, as well as those locked in for the future due to already emitted GHGs. In other words, we should be ready for severe events more often, such as fires, heatwaves and heavy rainfalls, as well as chronic challenges, such as rising sea levels.

Strategic initiatives include:

- refine our investment transition assessment tool
- enhance our physical climate risk assessment and climate adaptation plans for susceptible assets
- implement a robust internal carbon pricing methodology across relevant investment sectors
- continue to develop our climate risk analysis roadmap, including climate scenario analysis.

Climate scenario analysis

We use climate scenario analysis to gauge financial climate-related risks and uncertainties. While such analyses are complex and theoretical, rigorous analysis can offer a narrative along with quantitative insights. This is valuable when assessing our portfolio's resilience against different possible scenarios.

We first started climate scenario analysis in 2020. With the belief we could extract deeper insights, we've since established an Investment Climate Scenario Analysis sub-group to better understand global best practice. Following conversations with external consultants, climate analytics providers and fellow institutional investors, we're confident we're able to conduct even more meaningful analysis. We will share the results of this next year.

Pillar 3: Investing in climate solutions

Strategic initiatives include:

- to be at the forefront of investing in climate solutions thus supporting a low-carbon economy
- measure the effectiveness of our investments as contributors to our decarbonisation goals
- establish an Aware Super framework to assess, manage and invest in nature and biodiversity.

Global investment in the energy transition is accelerating, yet the financing needed to reach net zero is predicted to far exceed current investment. This presents an enormous opportunity for investors globally, including us.

Often when we think of investing in climate solutions, we imagine funding renewable energy and low-carbon industries. While these investments are crucial for the transition, a holistic approach means expanding our scope beyond low-carbon companies to include companies that, although not low emitters themselves, may offer products or technologies that lower emissions elsewhere. This could also include high-emitting companies that need substantial financing to help them transition. Without this capital, these companies might be unable to transition as quickly, or at all.

However, this presents a dilemma. As we work to meet our reduction targets, investing in these companies could result in increased emissions over the short to medium term. A pitfall we must sidestep is the unintentional narrowing of our investment diversity due to these targets. Such a narrowing could introduce more risk into our portfolio or stop us from financing the companies that need capital to transition. If these companies successfully transition, they'll play pivotal roles in global decarbonisation.

To navigate this challenge, we'll evaluate potential investments through a transition lens. This will make sure we continue to invest in companies that, with financing, can lower their emissions and remain relevant in a net zero economy. We accept this strategy could result in year-on-year absolute emissions and emissions intensity volatility for us. However, a strong portfolio-wide approach helps us stay true to our goal: support a 45% economy-wide reduction in GHG emissions by 2030.

15. For Climate and Energy Solutions (C2ES), Climate Resilience Portal, c2es.org/content/climate-resilience-overview/#:~:text=Climate%20resilience%20is%20the%20ability,or%20disturbances%20related%20to%20climate

Case study

Examples of our investment in climate solutions

Private equity

Rumin8 - Rumin8 is an Australian start-up agritech company that has developed a dietary supplement that reduces methane in livestock. Rumin8 has plans for a pilot plant targeted to initially produce 25,000 feed supplements a day, with the potential to produce millions of supplements over a short timeframe.

Infrastructure

Generate – In 2021, with a follow-up investment in 2022, we invested in US-based infrastructure projects platform, Generate. Generate finances, owns and operates in four key segments: sustainable power, sustainable mobility, sustainable water and waste, and sustainable cities. It has investments in emerging infrastructure projects in sectors such as renewable energy, energy storage, energy efficiency, microgrids, hydrogen infrastructure, electric vehicles and waste to value.

Case study

Helping to decarbonise New York

In partnership with Lendlease, we're building the largest residential building in New York state to use a geothermal heat pump system and renewable energy. The 834-apartment building is located at 1 Java Street, with 30% of the building to be affordable housing.

Geothermal energy is a form of renewable energy, which takes energy from the Earth's core and uses it for heating, cooling and generating electricity. Geothermal heat pumps are installed deep under the building. In winter, when the temperature above ground is colder than the Earth's, heat is transferred to the building. In summer, when the temperature above ground is hotter, heat is transferred underground.

While tapping the Earth's heat isn't new, adopting heat pump technology has been limited due to high upfront costs and complex installations. However, as climate change intensifies and governments limit fossil fuel use and emissions, geothermal energy is becoming an ever more popular solution.

The benefits are clear. Geothermal systems use far less power than traditional pumps, need less maintenance and last much longer. Lendlease estimates that the geothermal solution at 1 Java Street will cut annual carbon dioxide emissions from heating and cooling by 53%, compared to a traditional system running on fossil fuels.

Climate change (continued)

Pillar 4: Be a leader in company climate engagement

We hold investments in thousands of companies spanning virtually every sector and region. Where it will be most impactful, we engage with companies to influence change.

Listed equities, which accounted for over 50% of our financed emissions in 2020, are a priority for us. Direct engagement, collaboration and working with our fund managers is crucial to our decarbonisation.

As we move to net zero, there will be moments when climate-related investment decisions are called into question. For example, where climate engagement efforts fail or prove ineffective.

With our primary obligation to always act in the best financial interests of our members, we will re-evaluate and adjust our allocations in investments (if appropriate) as the future unfolds. This is particularly true for companies falling in value or facing the risk of becoming stranded assets.

Strategic initiatives include:

- implement an active climate engagement strategy that includes a strong framework approach to:
  - engagement with listed companies
  - voting on climate-related issues
  - engagement with fund managers (listed and unlisted)
  - engagement with directly owned assets
- actively engage on and support a fair and equitable transition for workers and their communities.

Case study

Listed Australian equities

We prioritise engagement with the top 20 emitters (Scope 1 and 2 emissions[16]) in our Australian-listed equities portfolio. In the 2022/23 financial year, we focused on 15 companies. More than half the companies on this list (subject to holdings) are also the highest Scope 3 emitters in our portfolio. We also engage with those companies on the list exposed to material physical climate risk. During engagement, we discuss critical issues, including:

- strengthening climate governance, along with improving board skills and capability in climate matters
- setting emissions reduction objectives, including net zero by 2050 and setting long-, medium- and short-term targets. Where appropriate, companies should also include material Scope 3 emissions, as guided by the Science-based Targets Initiative
- ensuring that emissions reduction efforts align with a well below 2°C trajectory, addressing the potential risks of any deviations from this pathway
- deepening our understanding of a company's decarbonisation strategy. This includes scrutinising the estimated emissions reductions, the validity, efficacy, cost and timelines of the proposed strategy or technologies, and how it will meet any targets the company has set
- evaluating the TCFD disclosures, including their scenario analysis
- promoting a commitment and where relevant, a plan to ensure an equitable transition for workers and the community impacted by decarbonisation
- evaluating the company's assessments of physical climate risk and resilience plans
- pushing for a commitment to an annual Say on Climate vote for high-emitting companies.

We track outcomes that are informed by the Net Zero Company Benchmark, ACSI and Climate Works research and include:

- the number of companies that have aligned their climate risk reporting to the TCFD standards:
  - *Of our 15 priority companies, all but two companies had TCFD aligned reporting, with one company not using it at all and another that had committed, but not yet delivered that reporting.*
- the number of companies on our priority list that have net zero commitments backed with short-, medium- and long-term science-based targets:
  - *Out of 15 priority companies, only one company had no targets whatsoever. A further two companies had no net zero, short- or long-term targets but had medium-term targets. Pleasingly, only two companies on this list did not have medium-term targets. Eight companies did not have science-based targets.*

Voting as active owners extends our ability to support climate-related shareholder resolutions. This is especially relevant where we believe a company hasn't made ambitious enough climate commitments or progress on climate action.

16. Scope 1 GHG emissions are the emissions released to the atmosphere as a direct result of an activity. These are referred to as direct emissions. Scope 2 GHG emissions are the emissions released to the atmosphere from the indirect consumption of energy e.g. indirect emissions coming from the use of electricity produced by the burning of coal in another facility. Scope 3 emissions are indirect GHG emissions other than Scope 2 emissions that are generated in the wider economy. They occur because of the activities of a facility, but from sources not owned or controlled by that facility's business. Aware Super prioritises engagement with companies based on our proportional ownership of these emissions.

Case study

Say on Climate

With ACSI, we encouraged some of the highest emitters listed in Australia to commit to an annual voluntary advisory climate resolution. Known as the Say on Climate, it allows investors to vote on a company's climate transition strategy at their annual general meeting.

Although non-binding and advisory, a significant against vote empowers investors to call upon the company to improve and escalate if no progress is shown.

During the 2022/23 financial year, Origin, South32, Sims Limited, APA Group, AGL and Incitec Pivot put forward their first Say on Climate resolution, all of which passed. We didn't vote against any Say on Climate vote for Australian-listed companies we invest in during the year. AGL and APA Group received nearly 30% and 21% against their Say on Climate resolutions respectively. Common themes as to why investors voted against included a lack of Scope 3 targets and physical risk analysis of assets.

While widely accepted that a company need only hold a Say on Climate vote every three years, we advocate for an annual vote. In 2023 after investor pressure, Woodside Energy, which so far had only put up one Say on Climate vote in 2022, agreed to put up another vote in 2024 and every three years after.

In our international-listed equities portfolio, we voted in favour of 25 out of 31 Say on Climate votes. Internationally, shareholders were just as likely to put up a Say on Climate vote compared with management (13 of 31 Say on Climate votes were requisitioned by shareholders). In the Australian market, all Say on Climate proposals last financial year and to date have been by management.

Case study

Climate Action 100+

We are one of the lead investors in Climate Action 100+ (CA100+), a global, investor-led initiative that engages with the world's largest corporate GHG emitters to highlight investor expectations around their climate transition and decarbonisation strategies. Phase 1 of the initiative ended in June 2023. As we transition into Phase 2, the engagement focus will shift towards the implementation of corporate climate transition plans. This meant that in the 2022/23 financial year, our primary engagement centred on company decarbonisation strategies. We closely evaluated the credibility and evidence base of specific technologies, such as carbon capture and storage, and direct air capture. Additionally, we assessed how these companies are reshaping their business operations and capital expenditure to drive these changes.

An interim release of the CA100+ benchmark in September 2022 highlighted that companies we engage with still need to improve. Key areas include setting Scope 3 and capital expenditure targets that align with the goal of limiting global warming to 1.5°C and phasing out investment in unabated carbon-intensive assets or products.

In Phase 2 of the initiative, the benchmark will introduce new indicators. These will evaluate whether emissions are genuinely decreasing, rather than merely being offset and indicators, previously in pilot format, assessing a company's commitment to just transition principles will be included going forward. For more on this initiative, see:

climateaction100.org

Climate change (continued)

Case study

Climate change and equitable transition

Companies, their staff and the communities in which they operate will progressively be more impacted as we transition to a low-carbon economy. It is paramount that this occurs in an orderly fashion to give workers time to understand the impacts on their livelihoods and families, whether they need to retrain, obtain new qualifications, change companies or move locations. Engagement with companies in our portfolio affected by this transition is to ensure they have recognised the need for a just and orderly transition, that they are consulting their workforce, offering training, education, social and mental health support as well as ensuring the communities in which they operate don't collapse with the transition.

In 2022, we developed guidelines to be used in engagement with companies on the topic of equitable transitions. This resource was developed after engagement with a particular company where we observed a stark contrast in perceptions between the management/board, staff and other stakeholders regarding how the transition was progressing. Staff and their union representatives felt they had not been adequately consulted or with enough time and that they had been left out of crucial decisions impacting their futures and as to what was best for the workers and the community. On the other hand, the board and management felt they had done everything they could given the time and regulatory constraints.

Our best practice guide sets out what staff, communities and investors expect from companies in transition. This guide is informed by the International Labour Organisation Guidelines for a Just Transition, the ACTU, Hunter for Jobs Alliance and the Just Transition Centre. It was designed to assess and promote best practice. This includes examining whether exposed companies have set up joint management-labour transition committees to encourage dialogue and co-planning, whether they've developed transition plans, and whether they've advocated for and transparently disclosed their actions.

Pillar 5: Having an influential voice

Strategic initiatives include:

- having an influential voice through active participation in policy, advocacy, education and communications
- actively participate in climate policy development with a focus on government policy and Australia's Green Taxonomy
- deliver clear and transparent climate reporting.

Climate change policy and advocacy:

Managing climate risk is dynamic and complex. We recognise that collaborating and sharing knowledge with fellow industry participants and stakeholders not only enhances our approach to how we transition our portfolio, but also encourages the wider move towards a low-carbon economy.

During the 2022/23 financial year, we contributed to policy, advocacy, market development and education forums on climate change and investment.

We continued our climate advocacy by participating in industry forums and collaborations, including:

- as a UN-supported PRI signatory, which involves reporting on our approach to responsible investment, including climate change, annually
- as an active member of ASFI, IGCC and ACSI, we collaborated on a range of climate-related activities. A few of these are highlighted below.

We also advocated by making submissions (either directly or through our advocacy partners) to reforms, including:

- Treasury consultation on climate-related financial disclosure and joint submission in response to the proposed ISSB standards on sustainability and climate reporting
- the Safeguard Mechanism reforms, including supporting a **joint industry statement** with leading Australian financial institutions and finance industry peak bodies on the proposed reforms
- accelerating the Sustainable Finance Taxonomy
- signing a joint letter supporting the establishment of a National Transition Authority
- supporting the **Independent Review of Australian Carbon Credits**
- providing feedback to the Taskforce on Nature-related Financial Disclosures (TNFD)
- participating in the Climate Change Authority Consultation: Setting, tracking and achieving Australia's emissions reduction targets
- being part of a coalition of investors highlighting the need for sector transition pathways to guide Australia's transition to net zero. The Australian Government has now committed to developing sector pathways
- participating in the Australian Government's Review of Development Finance.

We supported or participated in a number of face-to-face collaborations, including:

- **Australian Sustainable Finance Institute (ASFI) Member Canberra Visit**

  Representatives from 22 ASFI member organisations came together in Canberra in September 2022 for a day of meetings and events with government ministers and senior officials. Assistant Treasurer and Minister for Financial Services, The Hon Stephen Jones MP and Assistant Minister for Climate Change and Energy, Senator the Hon Jenny McAllister acknowledged the finance sector's critical role in achieving many of the government's ambitions and expressed strong support for collaborating on the sustainable finance agenda. The government also signalled its willingness to work with the finance sector and others to accelerate capital to activities aligned with a sustainable, resilient, and inclusive Australia.

- **Accelerating Sustainable Finance with the Australian Treasurer**

  In December 2022, we attended an event with Australia's Treasurer the Hon Dr Jim Chalmers MP and CEOs and other senior executives from Australian financial institutions, financial services firms and industry peak bodies. The Treasurer announced that the Australian Government will strengthen climate risk reporting and develop a sustainable finance strategy.

- **Treasurer's Investor Roundtable on Clean Energy**

  In April 2023, Aware Super, along with ASFI, attended the Treasurer's Investor Roundtable on Clean Energy along with CEOs and chairs from major Australian financial institutions. The roundtable was a welcome opportunity for government and the finance sector to work together to boost investment in cheaper, cleaner and more reliable energy. The government made a string of announcements[17] that were welcomed[18] by industry participants.

Climate reporting and disclosure:

While we currently report in line with the TCFD for our climate action and progress against targets, the release of the International Sustainability Standards Board (ISSB) S2 Climate-related Disclosures module is considered likely to supersede TCFD reporting, potentially from the 2024/25 financial year. Along with the Australian Government's proposed mandatory reporting for Australian companies and financial institutions, this presents a new paradigm for understanding climate risks and opportunities.

We look forward to working with our regulators and supervisory bodies, our peers and the Australian Government to agree on effective reporting methods that help improve market outcomes.

17. **ministers.treasury.gov.au/ministers/jim-chalmers-2022/media-releases/investor-roundtable-aligns-efforts-deliver-cleaner**
18. **afr.com/markets/debt-markets/australia-to-launch-sovereign-green-bond-next-year-20230421-p5d2bq**

Climate change (continued)

2022/23 targets and outcomes

Target identified for the 2022/23 financial year	Progress made during the 2022/23 financial year	Evaluation of progress made during the year
Transition Plan refresh	A full review and refresh of the Climate Transition Plan was undertaken and approved by the board in July 2023.	Completed
Aware Super sector emissions reduction targets	Through the Climate Transition Plan refresh process, emissions reduction targets were finalised and approved by the board. These overarching targets are supported by individual sector targets, or where this is not yet done, a commitment to complete sector targets in the 2023/24 financial year.	Completed
Direct investment emissions reduction targets	Over seven months, we embarked on a comprehensive project involving detailed assessments with individual direct investments. This enabled us to establish their 2022 Scope 1 and 2 emissions baseline and forecast future emissions. The aim was to set 2030 emissions reduction targets. For more information on this work, see Pillar 1.	Completed
Climate scenario analysis	We established a Climate Scenario Analysis group. Detailed climate scenario analysis will be completed in the second half of 2023. For more information on this work, see Pillar 2.	Groundwork: Completed Project work: In progress
Portfolio emissions evaluation	Although a significant portion of the portfolio was baselined using 2020 emissions data, we recognised the need for a more streamlined process to collect emissions data. In the 2022/23 financial year, we selected an emissions management technology platform to facilitate this task. We anticipate sharing a more comprehensive update in future reporting.	Implementation phase
Internal carbon pricing	We continue to work on our approach to internal carbon pricing. A pilot program with the direct listed equity and infrastructure investment teams is in progress.	Ongoing
Physical and transition risk assessment	Globally, methodologies for assessing and managing physical and transition climate risks are continually evolving. We are advancing our approach by drawing on these global examples and crafting our own methodologies.	Ongoing
Climate change engagement	Our climate engagement efforts expanded to include the most exposed listed equities worldwide – our directly owned infrastructure and real estate investments, as well as our fund managers who manage investments on our behalf. For more information on our actions in the 2022/23 financial year, see Pillar 4.	Ongoing
Advocacy, policy groups and initiatives	We continued prioritisation of the most critical advocacy and policy work, internally and with external organisations and initiatives. For more information on our actions in the 2022/23 financial year, see Pillar 5.	Ongoing

2023/24 financial year and beyond

Theme	Activity proposed
Climate change stakeholder engagement	Continue to deepen engagement with priority listed companies, direct investments and with our fund managers around climate change risks and opportunities, emissions reduction plans and alignment with our portfolio emissions reduction targets.
Sector emissions reduction targets	Work with relevant sectors to have an approved emissions reduction target.
Direct investment emissions reduction progress	Monitor progress and implementation against the approved direct investment targets and Transition Plan.
Climate scenario analysis	Complete the portfolio climate scenario analysis, incorporating deeper analysis around a range of transition pathways.
Portfolio emissions management	Complete the emissions management technology platform trial and extend to additional investment sectors.
Internal carbon pricing	Finalise roll out of the internal carbon price across a range of our investment sectors (as appropriate), into investments where a price on carbon could impact financial returns.
Physical and transition risk assessment	Continue to strengthen our analysis and methodologies for incorporating climate physical and transition risk assessments in our investment analysis, reflecting the latest science and research.
Advocacy, policy groups and initiatives	Continue prioritisation of the most critical advocacy and policy work, internally and with external organisations and initiatives.

Recognition and awards

Chant West[19]	Rainmaker	SuperRatings[20]

We'd love your feedback on our report

Let us know your thoughts on the content of our responsible investment report by emailing us:

enquires@aware.com.au

19. Zenith CW Pty Ltd ABN 20 639 121 403 AFSL 226872/AFS Rep No. 1280401 Chant West Awards issued 17 May 2023 are solely statements of opinion and not a recommendation in relation to making any investment decisions. Awards are current for 12 months and subject to change at any time. Awards for previous years are for historical purposes only. Full details on Chant West Awards at **chantwest.com.au/fund-awards/about-the-awards/**
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