Responsible Investment Report 2022

There for our members

aware SUPER

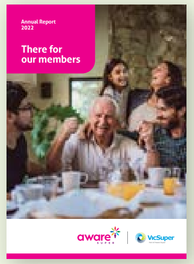
VicSuper
Part of Aware Super

How we report

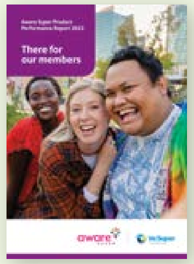
Our purpose is to be a force for good in super and retirement, shaping the best outcomes for our members, their families and communities, and our industry.

Our 2021–22 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.

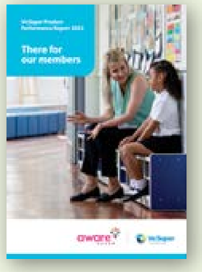
Our annual reporting documents include:



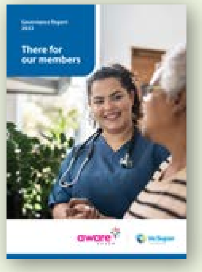
Annual Report 2022



Aware Super Product Performance Report 2022

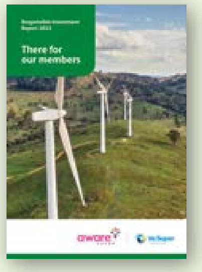


VicSuper Product Performance Report 2022

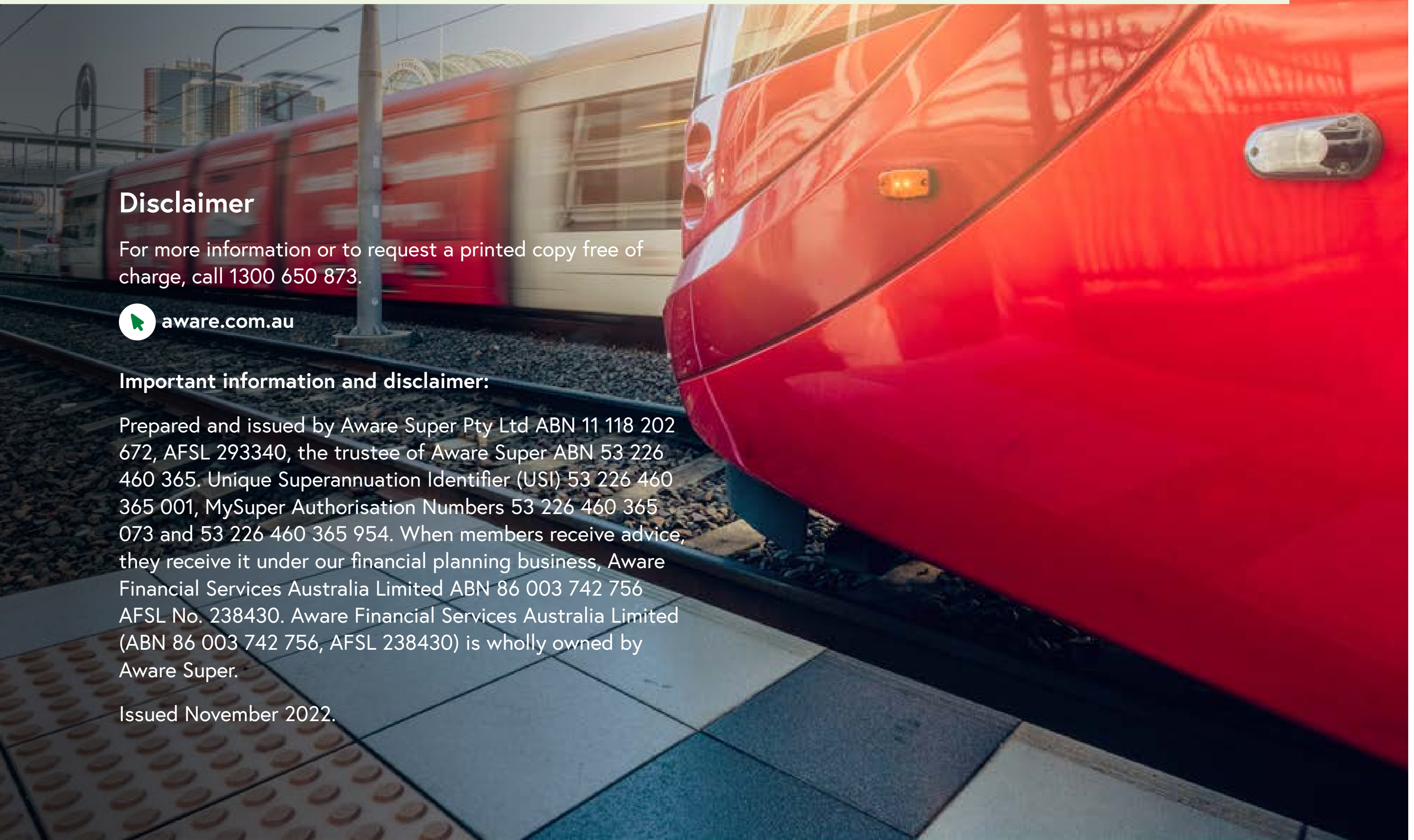


Governance Report 2022

Additional report



Responsible Investment Report 2022



Disclaimer

For more information or to request a printed copy free of charge, call 1300 650 873.

aware.com.au

Important information and disclaimer:

Prepared and issued by Aware Super Pty Ltd ABN 11 118 202 672, AFSL 293340, the trustee of Aware Super ABN 53 226 460 365. Unique Superannuation Identifier (USI) 53 226 460 365 001, MySuper Authorisation Numbers 53 226 460 365 073 and 53 226 460 365 954. When members receive advice, they receive it under our financial planning business, Aware Financial Services Australia Limited ABN 86 003 742 756 AFSL No. 238430. Aware Financial Services Australia Limited (ABN 86 003 742 756, AFSL 238430) is wholly owned by Aware Super.

Issued November 2022.

At Aware Super, we believe climate change is one of the most significant long-term risks to our portfolio and, therefore, our members' retirement outcomes.

That is why we have a dedicated section in this report, which sets out our strategy and approach for managing climate change risks. This section has been prepared in alignment with the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) guidelines. This is our second year of reporting aligned to the TCFD guidelines, building on the previous reporting undertaken by VicSuper, prior to its merger with Aware Super, and our 2021 Destination Net Zero report. We will continue to report annually and build on our approach to addressing climate change in line with the TCFD recommendations. The information in the climate section is for the 2021–22 financial year (i.e. 1 July 2021 to 30 June 2022), unless otherwise stated.

Inside this report

About Aware Super

We have a long history of putting our members first.

As one of Australia's biggest super funds and a major institutional investor, we believe we have an important role to play in bringing about positive action on climate change to protect the retirement savings of our members.

Deanne Stewart
Chief Executive Officer

In 1992, First State Super was established to provide for the super and retirement needs of New South Wales public sector employees and their families. In 2006 we opened our doors to all Australians and in 2020 we merged with VicSuper and WA Super and became known as Aware Super. Today we manage almost $A146 billion[1] in savings for more than 1.09 million members.

We believe we can do well for our members while doing good for all. We aim to deliver strong long-term returns, while investing for our members in the communities where they live, work and retire. We are proudly a profit-for-member industry fund, which means we reinvest all profits to benefit our members – through better services, improved products or more streamlined operations to reduce fees.

We are one of Australia's largest super funds. We have access to a wide range of investment opportunities and leverage our size, scale and expertise with the aim of delivering strong long-term returns and reducing costs in the form of fees and insurance premiums.

Awards and recognition highlights:

- inaugural 2022 Best Fund: Responsible Investment by Chant West[2]
- Responsible Asset Allocators Initiative (RAAI) Leaders List Award 2022
- Rainmaker Information Environmental, Social and Governance (ESG) Leader 2022
- Responsible Investment Association Australasia (RIAA) 2022 Responsible Investment Leader
- recognised by the PRI as a leader for our climate change reporting (2020)
- recognised by the PRI as a leader for our approach to the appointment, selection and monitoring of fund managers (2019)
- only Australian super fund to be awarded the global ESG Incorporation Initiative of the Year by the PRI in 2019
- one of only 30 global companies invited to join the UN Global Investors for Sustainable Development Alliance
- Tobacco-Free[3] since 2012.

1 As at 30 June 2022.

2 © Zenith CW Pty Ltd ABN 20 639 121 403 (Chant West), AR of Zenith Investment Partners Pty Ltd ABN 27 103 132 672, AFSL 226872/AFS Rep No. 1280401. Chant West Awards (Awards) issued 25 May 2022 and are determined using proprietary methodologies based on data from third parties and subject to copyright. Chant West does not accept any liability arising from use of Awards. Awards are solely statements of opinion and do not represent recommendations to purchase, hold or sell product(s) or make any other investment decisions. To the extent the Awards constitute advice, it is General Advice only without taking into consideration the objectives, financial situation or needs, including target markets of financial products. Individuals should consider their personal circumstances, read the PDS or offer document and seek independent financial advice before making investment decisions. Past performance is not an indication of future performance. Awards are current for 12 months from the date awarded and subject to change at any time. Awards for previous years are referenced for historical purposes only. Go to www.chantwest.com.au for full information on Chant West's research methodology, processes, ratings definitions and FSG.

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

Aware Super works with the investment community and investee companies on a range of initiatives that advance the adoption, integration and reporting of the United Nations (UN) Sustainable Development Goals (SDGs). One example of this is our involvement with the UN Global Investors for Sustainable Development (GISD) where we have collaborated on the definition of 'Sustainable Development Investing' adopted by the GISD Alliance. Further information on this can be found in the Investing for positive impact section.

We have identified six material SDGs, that are aligned to our responsible ownership activities.

We're proud that, through the investments we make and our active ownership activities, we will be contributing to progressing some of the UN SDGs, fulfilling our commitment to deliver strong long-term returns with societal and environmental benefits.

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

SDG 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

4.1 By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes.

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 forms.

SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human wellbeing, with a focus on affordable and equitable access for all.

SDG 12: Ensure sustainable consumption and production patterns

12.2 and 12.5 By 2030, achieve the sustainable management and efficient use of natural resources and 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 policies, strategies and planning.

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 processes across all our investment options and asset classes.

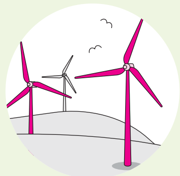
Being a responsible owner means we invest for strong retirement outcomes for our members, while also considering the impact of our investments on the environment and society. As a profit-for-member organisation, everything we do is for the benefit of our members, who are also part of the broader community. Through our investments in renewables, affordable housing, community and new technologies, we are helping to create jobs, contribute to a more productive economy and support the communities where our members live, work and retire.

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 consists of five pillars:

1. Pillar 1: Environmental, social and governance integration
2. Pillar 2: Advocacy and collaboration
3. Pillar 3: Stewardship: Engagement and voting
4. Pillar 4: Exclusions
5. Pillar 5: Investing for positive impact

Examples of some of the ESG factors we consider

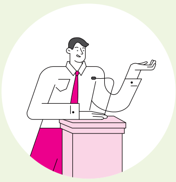


Environmental issues

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; conduct and culture; and adherence to international conventions.



Governance issues

Board structure; director remuneration; data privacy and cyber security; and transparency and reporting.

Pillar 1

Environmental, social and governance integration

Investments

We take a holistic approach when considering ESG factors in our portfolio of investments. Our ESG integration approach means we assess and monitor ESG risks and opportunities across the fund's entire portfolio, across 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.

For more about our ASX-company engagement program, see p. 8.

'True ESG integration is beyond policies and procedures. It's the meaningful conversations between analysts across the whole Investments team. I'm proud of the wider ESG culture we've created and will continue to nurture at Aware Super.'

Liza McDonald
Head of Responsible Investments

How we apply ESG considerations to our investments

During the year we strengthened our ESG assessment proficiency with a comprehensive update of our **Sector Materiality Matrix**. This tool guides our investment analysts regarding the sector-specific material ESG risks or opportunities to consider (e.g. circular economy, cyber security, worker wellbeing and safety), and emphasises Aware Super's priority themes, such as climate change, diversity and inclusion and modern slavery. It's used across the Aware Super asset classes when assessing new investment opportunities.

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

Affordable housing: energy efficiency initiatives; proximity of developments to schools, medical facilities, hospital and transport; selecting and independence of housing managers (i.e. leasing).

Property: environmental impact assessments (e.g. biodiversity, cultural heritage, contamination); safety; physical climate risk assessments.

Infrastructure: worker and infrastructure users' health and safety; environmental impact; industry emissions intensity; alignment with Aware Super's emissions reduction goals; physical climate risk.

Healthcare: waste and hazardous materials management; circular economy initiative or strategy; corporate behaviour and controversies; customer health and safety; worker and contractor wellbeing and safety; modern slavery and supply chain 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.

Responsible ownership (continued)

Pillar 1 (continued)

External managers

ESG integration extends to the way we select, appoint and partner with our external managers. We interact regularly with our external managers to discuss how they are considering and monitoring ESG-related risks and opportunities. While our expectation is that our managers will conduct this analysis as part of their investment activity, we do allow them some flexibility to determine the way in which ESG considerations are implemented. Our assessment criteria are outlined below.

Manager assessment criteria

Policy: Policy and philosophy covering approach to responsible investment.

Resourcing: People and resourcing to implement policies and procedures.

Stewardship: Process for voting (where applicable) and engagement decision making and execution.

Integration: Are ESG-related factors 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 Aware Super's specific Responsible Ownership policy.

Climate change: Understand it as a risk and/or opportunity. Commitment from manager on climate targets.

Modern slavery: Understand the manager's analysis and exposure of the corporate supply chain and the investments supply chain to the risks of modern slavery.

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

Pillar 2

Advocacy and collaboration

We engage and collaborate with other like-minded investors and industry associations to help us understand the ESG opportunities across a range of industries and sectors.

We are involved in a number of initiatives that are summarised below.

We are a signatory to the Principles for Responsible Investment (PRI). The PRI is a universal framework to help investors learn from each other and be a collective voice on ESG issues. We participate in their annual benchmarking survey and publish our assessment and transparency report on our website.

For more information about the PRI, see:

unpri.org

The Global Investors for Sustainable Development (GISD) Alliance represents 30 global business giants worth $US16 trillion, convened by the UN Secretary General to step up to the challenges of financing the SDGs and seeks to deliver concrete solutions to scale-up long-term finance and investment in sustainable development.

For more information about the GISD, see:

gisdalliance.org

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

For more information about IAST APAC, see:

iastapac.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. Aware Super is a founding member of ASFI.

For more information about ASFI, see:

asfi.org.au

We joined more than 600 global investors with more than $US55 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 information about Climate Action 100+, see:

climateaction100.org

40:40 Vision is an investor-led initiative to achieve gender balance in executive leadership across all ASX200 companies by 2030 and seeks to move beyond tokenism to achieve this. 40:40 stands for a ratio of 40% women/40% men/20% any gender – the composition we have for the Aware Super board.

For more information about 40:40 Vision, see:

hesta.com.au/4040Vision

The Responsible Investment Association Australasia (RIAA) champions responsible investing and a sustainable financial system in Australia and New Zealand. RIAA is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.

For more information about the RIAA, see:

responsibleinvestment.org

The Transition Pathway Initiative (TPI) is a global, asset owner-led initiative which assesses companies' preparedness for the transition to a low-carbon economy. The TPI is supported globally by 128 investors with more than $US50 trillion combined assets under management and advice.

For more information about TPI, see:

transitionpathwayinitiative.org

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

For more information about ACSI, see:

acsi.org.au

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. We also supported a range of submissions that IGCC made on behalf of its members.

For more information about IGCC, see:

igcc.org.au

We endorse the Task Force on Climate-related Financial Disclosures (TCFD), encouraging companies to disclose their climate change risks and opportunities in accordance with the TCFD recommendations which we have adopted for our own reporting suite.

For more information about the TCFD, see:

fsb-tcfd.org

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

For more information about EOS, see:

hermes-investment.com

Aware Super has joined Climate League 2030, established by the Investor Group on Climate Change (IGCC), as a foundational supporter. This new 10-year initiative aims to further support and act towards a goal of reducing Australia's annual greenhouse gas emissions by at least a further 230 million tonnes on top of what is already projected for the end of the decade.

For more information about Climate League, see:

climateleague.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 information about CDP, see:

cdp.net/en

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. This engagement helps to positively influence 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 holds them accountable.

Engagement

We use our ownership rights to engage with companies. Where we believe a company's management of ESG issues does not meet industry standards and/or community expectations, or when the company's conduct threatens its reputation and value, we work with the company to improve its ESG policies and practices. Engaging in this way enables us to protect and/or increase the company's ability to deliver sustainable long-term returns to 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 engaging with international-listed companies, we partner with EOS at Federated Hermes and our fund managers.

Australia

We engaged directly and in collaboration with ACSI with 193 companies across 385 meetings.

Engagement objectives
By theme

Environment	29%
Social	49%
Governance	22%

Issues and objectives engaged
ESG

Diversity	5%
Governance	7%
Cultural heritage	15%
Conduct and culture	8%
Modern slavery and labour rights	9%
Safety	13%
Climate change	28%
Remuneration	15%

International

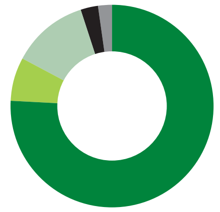
Companies engaged
By region

Developed Asia	59
Emerging and developing markets	36
Europe	148
North America	297
United Kingdom	58

Issues and objectives engaged
By theme

Environmental	27%
Social and ethical	21%
Governance	38%
Strategy, risk and communication	14%

Issues and objectives engaged
Environmental

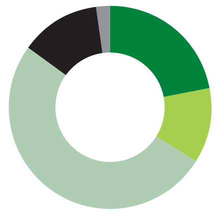


Climate change	76%
Forestry and land use	7%
Pollution and waste management	12%
Supply chain management	3%
Water	2%

Issues and objectives engaged
Social and ethical

Conduct and culture	13%
Diversity	23%
Human capital management	22%
Human rights	35%
Labour rights	4%
Bribery and corruption	2%
Tax	1%

Issues and objectives engaged
Governance



Board diversity, skills and experience	22%
Board independence	12%
Executive remuneration	51%
Shareholder protection and rights	13%
Succession planning	2%

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

Contributed to SDG

We advocate for diversity among Australian boards and executive teams. We're concerned 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.

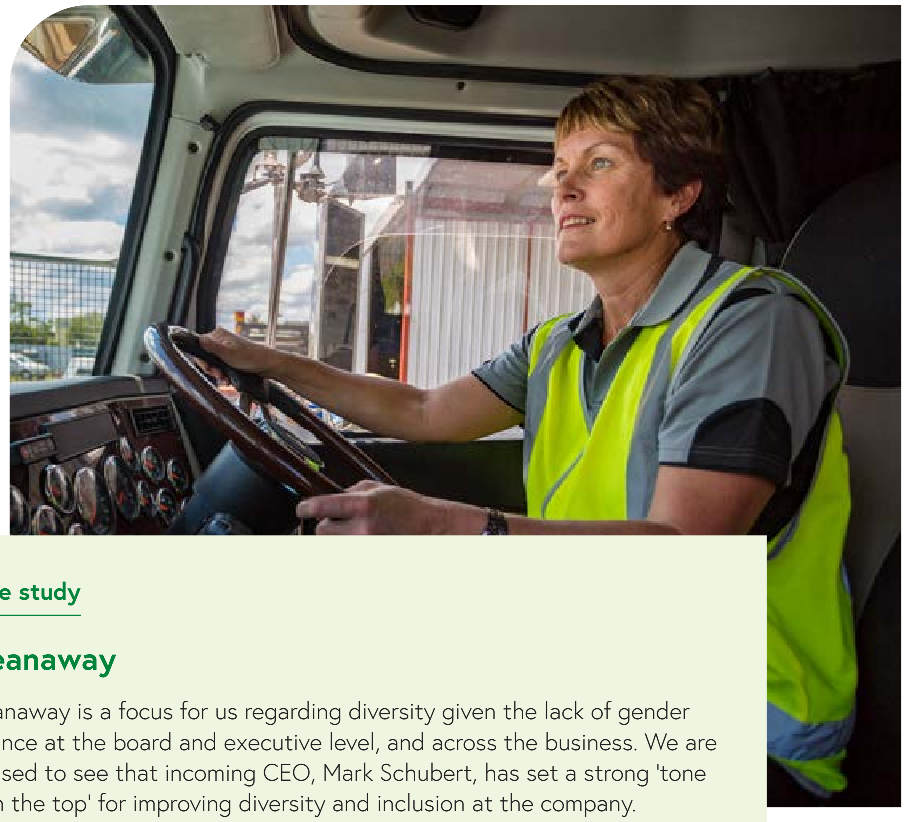
Diversity is a large contributor to a company's culture. It filters through from the board to management and the general workforce. An inclusive workforce means everyone feels valued, which in turn can motivate positive behaviours. For companies to create long-term value, they need to recognise and embrace the value of diversity in their people. While our focus to date has been on gender, we are seeking to understand how companies consider diversity more broadly, including age, ethnicity, education and professional experience.

Research suggests there is a strong and growing correlation between diversity and company performance. McKinsey's 2018 Delivering through Diversity report[1] found that companies in the top quartile for gender diversity on their executive teams were 21% more likely to experience above-average profitability than companies in the lowest quartile. Further, the 2020 McKinsey report[2] Diversity wins reveals just how much the gap is widening. It found there is a 48% difference in performance between the most and least gender-diverse companies.

Maximising the potential of a diverse workforce is not only a social imperative – it is a competitive advantage.

1 McKinsey & Company: Delivering through diversity, January 2018.

2 McKinsey & Company: Diversity wins. How inclusion matters, May 2020.



Case study

Cleanaway

Cleanaway is a focus for us regarding diversity given the lack of gender balance at the board and executive level, and across the business. We are pleased to see that incoming CEO, Mark Schubert, has set a strong 'tone from the top' for improving diversity and inclusion at the company.

During the year a key initiative implemented was the establishment of Cleanaway's Female Driver Academy, supporting women from various job backgrounds to re-train as a driver.

For more information, see:

cleanaway.com.au/sustainable-future/female-driver-academy-feb22/

Taking action on gender diversity in Australia

The number of women appointed to ASX200 boards continued to grow during the year. In fact, 44.5% of the 256 new directors announced were women. This means ASX200 boards are nearing 35% women and the ASX300 is not far behind at 33%. This represents an increase of 1–2% from the previous year. Throughout the 2021–22 financial year, diversity at board level improved across 102 ASX300 companies, with 16 companies appointing more than one woman, including Mayne Pharma which appointed three.

Our commitment to promoting gender diversity meant that we chose not to support the re-election of existing directors at six companies in 2021–22. 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 year we engaged directly with 16 ASX-listed companies on gender diversity across the financial services, industrials, information technology, mining and real estate investment trust (REIT) sectors. Encouragingly, we saw improved gender balance at the executive level at two Australian banks and the appointment of at least one female to 10 of those boards we engaged with.

Modern slavery

Contributed to SDG

Aware Super believes respect for human rights is strongly associated with value chain resilience and a stable business operating environment. 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 other legal risks such as noncompliance with emerging human rights-related regulation; scrutiny from national-level grievance mechanisms; significant fines; productivity and recruitment challenges; as well as negative press coverage.

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. Neglect of these issues also threatens a company's social licence to operate.

Since the introduction of the *Modern Slavery Act 2018* (Commonwealth), Aware Super has engaged with companies to understand how they are managing the risk of modern slavery in their operations and supply chains. We engaged with 15 ASX-listed companies across the consumer, industrial, real estate and mining sectors. Outcomes from these engagements include:

- increased collaboration within industry segments to create tools for better managing suppliers, and
- improving on-site audits of suppliers in high-risk locations.

Our engagement with key ASX-listed companies revealed companies are at various stages of tackling modern slavery. We have encouraged companies in the consumer sector to expand the scope of their modern slavery assessment to include all global operations and cover 100% of Tier 1 suppliers. During the year we saw increased collaboration across companies within the same industry. We consider this a positive step towards increasing the number of suppliers assessed for modern slavery. Ongoing engagement is focused on:

- the company's reporting on their assessment of modern slavery risk in their operations and supply chain,
- incentivisation or training for suppliers to monitor conditions in the next tier of the supply chain, and
- overall accountability, governance and responsibility for modern slavery oversight within the organisation.

Case study

Human rights in Myanmar

On our behalf, our international engagement partner, EOS at Federated Hermes, engaged with companies with joint ventures, partnerships, subsidiaries or important value chain partners in Myanmar.

Engagements followed guidelines aligned with the UN Guiding Principles on Business and Human Rights. Companies were asked to implement a range of initiatives, including heightening due diligence to understand and monitor the human rights risks, and increasing transparency on how decisions were made to remain in the country.

While the situation is complex for those companies identified, in January 2022 we were encouraged to see French company TotalEnergies and Chevron manage this risk, each committing to exiting Myanmar. TotalEnergies cited investor expectations and the worsening situation in Myanmar as reasons to exit.

Case study

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 $A7.8 trillion in funds under management across 38 investor members. Aware Super is a founding member of IAST APAC and sits on the steering committee that oversees the initiative and workstreams.

More information can be found in the inaugural IAST APAC Annual Report available at:

iastapac.org

Responsible ownership (continued)

Pillar 3 (continued)

Cultural heritage

As part of our ongoing engagement program, Aware Super is a member of the Rights and Cultural Heritage Risk Management Working Group. This is an ACSI and investor collaborative effort, convened to better understand the financial risks inherent in inadequate company engagement with First Peoples and to chart a path towards improved risk management. The Working Group aims to see risks mitigated and managed through principled and constructive engagement between companies and First Peoples. During the year, the Working Group released a policy on company engagement with First Peoples and an accompanying research paper. It has also established a broader remit for the future – seeking to identify and then engage with companies in key sectors on cultural heritage risks.

This theme aligns with Aware Super's Reconciliation Action Plan (RAP). For more information on how we're meeting the objectives of our Reflect RAP, including annual reporting on how we engage with companies on issues related to Aboriginal land rights and cultural heritage, see the Responsible ownership section of our annual report.

Harm caused to the lands, culture and heritage of First Peoples has a deep and often irreversible impact on communities, and also represents a loss for the world's heritage and common humanity...Respecting the rights of First Peoples is intrinsically linked with managing a company's long-term interests.

ACSI Policy on Company Engagement with First Peoples

Culture and conduct

We're committed to enhancing the culture and conduct of the companies in which we invest. Corporate culture and conduct relate to the values, beliefs and most importantly, the behaviour of the company and its employees.

Positive culture and conduct can have a huge impact on the long-term success of a company and can lead to better performance, reputation and productivity. Conversely, poor culture and conduct has the opposite effect.

We engaged with nine ASX-listed companies across the financial services, industrials, consumer, healthcare, information technology and mining sectors.

Engagement has proved beneficial in numerous cases during the year, for example:

- Aware Super engaged directly with board members at two ASX-listed companies in our portfolio, following the sudden departure of their CEOs. We outlined our expectation that the incoming CEOs would have strong people leadership skills and the ability to drive a positive and productive culture. The subsequent CEO appointments for these two companies have been positive and we have seen the respective boards take a more active role in monitoring workplace culture.
- Internationally, our engagement partner EOS at Federated Hermes advocated for and subsequently welcomed the announcement by an international streaming content provider to put company governance guidelines to the vote at its 2022 Annual General Meeting (AGM). The company further agreed to consider an independent board evaluation. The company was also asked to disclose an ethical decision making process that it could use for making potentially controversial content decisions.

We will continue to use our proprietary framework to monitor and assess the culture of the companies we are invested in by:

- ensuring management supports positive conduct and culture, and
- monitoring key metrics, such as safety, employee engagement, turnover and consequence management across different areas of the business.

To learn more about our approach to influencing conduct and culture at the companies we invest in, see:

aware.com.au/focusonconductculture

Case study

Rio Tinto

Rio Tinto's independent (and confronting) report into its workplace culture tells of widespread and systematic bullying, sexism, racism and sexual harassment in its Western Australian and global operations.

'Tone from the top' and appropriate monitoring will be important to drive the cultural change needed at Rio Tinto. We spoke directly with the company's Chair, acknowledging the company's leadership on this issue by issuing a full and transparent report to investors. We discussed our expectation that Rio Tinto provides annual updates to investors, outlining how it is progressing in all 26 recommendations made in the report. Finally, we approved the decision to tie 2.5% of executive remuneration to progress on the implementation of the report's recommendations in the 2022–23 financial year.

'Tone from the top' refers to a company's executive and board demonstrating, through words and actions, their commitment to building an inclusive and safe corporate culture. They walk the talk and hold themselves accountable in success or failure.

Executive remuneration

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

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

The median ASX100 CEO bonus rose from record lows of 31% in the 2019–20 financial year to 76% in 2020–21[1]. This is the highest in seven years, so the engagement with companies on executive remuneration has been even more important.

We engaged with 32 ASX-listed companies across all sectors of our portfolio to ensure a range of outcomes, including:

- transparent disclosure of bonus outcomes
- performance hurdles that are sufficiently demanding
- majority of total remuneration in the form of long-term incentives (LTI)
- clearer definition of and reporting against the company's key ESG performance criteria
- use of board discretion upwards or downwards.

During the year we saw continued scrutiny of corporate Australia's internal cultures with boards being held accountable for underperformance. Aware Super voted against 46 remuneration reports in the 2021–22 financial year (out of a possible 167), and of these companies, five received a strike. A total of 15 ASX200 companies received a strike in 2021–22.

Investor engagement proved to be beneficial and led to improvements ahead of several AGMs, including:

- increased vesting period for LTIs
- increasing the difficulty of the financial hurdles within LTIs
- inclusion of environmental and sustainability hurdles
- removal of un-hurdled retention payments
- greater alignment to LTIs.

We are encouraging companies to integrate ESG metrics into remuneration where these issues are material to the corporate strategy. Already, 66% of ASX200 companies have climate-, safety- or workforce-related metrics included in their remuneration.

Voting

We own a large universe of listed companies and therefore, we 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 across areas such as board accountability and structure; executive remuneration; human rights; diversity; and climate-related disclosure and action. Our focus is on ensuring the companies we invest in continue to deliver the best possible long-term returns for our members.

When voting on resolutions for Australian-listed companies, we consider recommendations from ACSI, the opinion of our investment managers, as well as a company's response to our engagement. When voting on resolutions for international-listed companies, we utilise recommendations from CGI Glass Lewis and a number of our investment managers vote directly.

Each year, we abstain from a small number of votes, including situations where we must choose either/or from a list of directors. In the case of shareholder resolutions, we might choose to abstain from voting to show that while we acknowledge the work a company has done to date, we expect them to do more to address the ask of the resolution.

We've seen an increase in the number of shareholder resolutions (in Australia and internationally) relating to environmental and social issues (e.g. climate change and human rights). We supported 91% 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 risks 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	357
Resolutions voted on	2,180

International shares	
Meetings	3,563
Resolutions voted on	40,761

11% of votes were against management recommendations

1 CEO pay in ASX200 companies, July 2022, ACSI

Responsible ownership (continued)

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 particular companies based on ethical grounds. Our responsible ownership approach has generally not been to exclude companies or sectors, but rather to use engagement and proxy voting to influence the behaviour of investee companies. There are some circumstances, however, where it is appropriate to consider exclusions of a sector or a specific stock, such as:

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

Industries we do not invest in

1. Manufacturers of tobacco or cigarettes

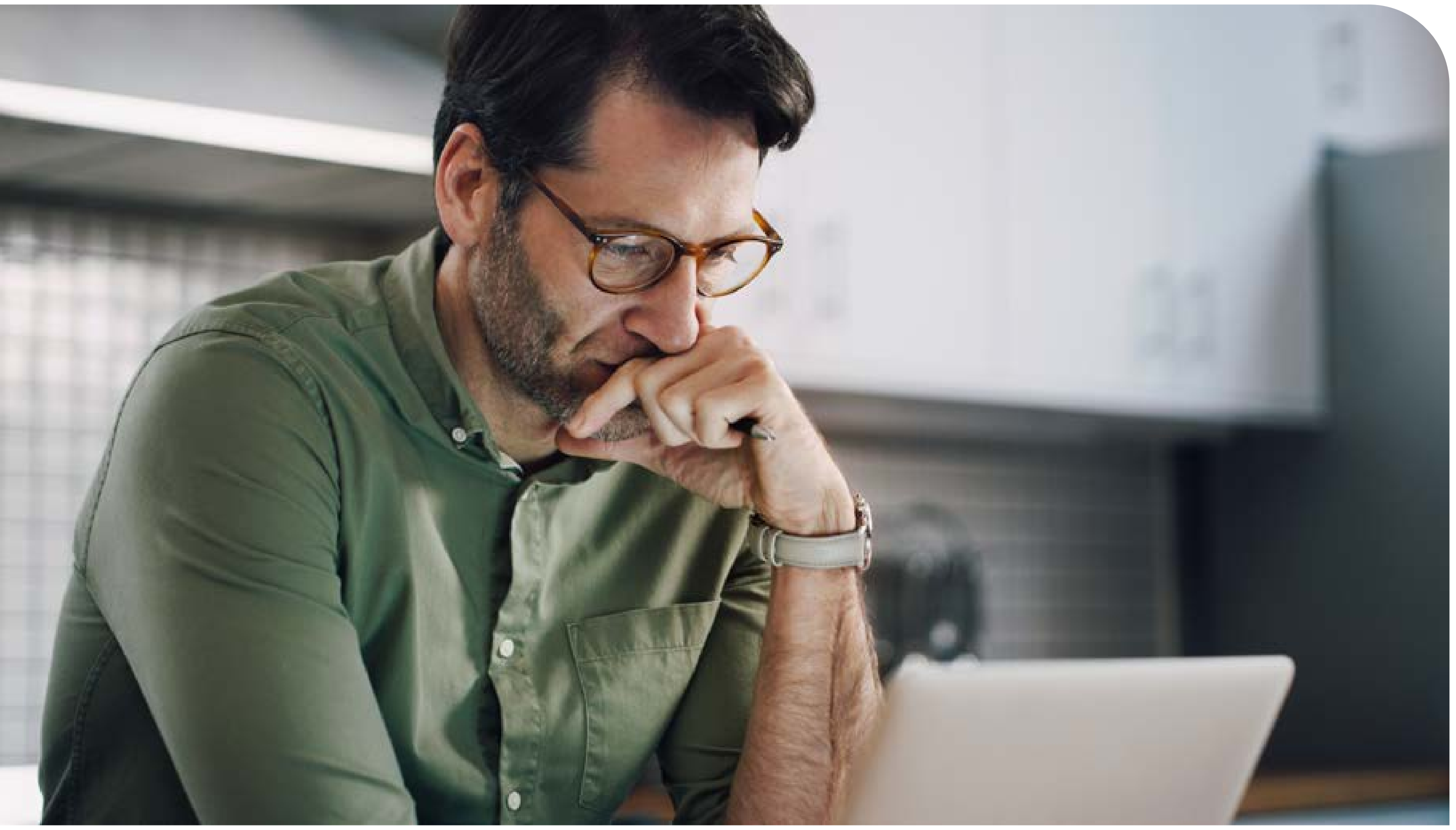
In 2012, we set an industry precedent by being one of the first super funds to divest these companies. We have excluded direct investments in tobacco manufacturers and/or producers (including subsidiaries, joint ventures and affiliates) that derive 5% or more of their revenue from the manufacture and/or production of tobacco products.

2. Thermal coal miners

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

3. Controversial weapons

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



Pillar 5

Investing for positive impact

One of the real opportunities of investing sustainably is finding a way to measure and monitor the impacts, both positive and negative, of the investments we make on behalf of our members. One way we have responded to this opportunity is through the development of a proprietary **Positive Impact Measurement Framework**. In June 2019 we began measuring the positive impact of several assets through a number of key indicators specific to each asset. While quantitative output measures of potential impact provide one assessment, we recognise not all impacts, positive and negative, can be clearly quantified. To overcome this challenge, during the year we developed an additional methodology that uses a sustainable development lens. This resulted in our **Sustainable Development Investing** methodology. A brief description of these methodologies is outlined below.

Positive Impact Measurement Framework

We aim to consider the positive impacts of our investments as the 'material effects on people and planet'. We believe measuring this positive impact is critical to making sure our investments are effective at instigating and maintaining change, compared with what would have happened anyway without that financing.

Measuring the true impact of investments, however, requires determining both 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. We continually review and update the investments we include and the measures we assess on an ongoing basis to measure the impacts we make.

Our framework identifies a number of 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 would not 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 – 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	
Climate change solutions	Investing in infrastructure, products or services producing: • renewable energy • energy efficiency • alternative energy e.g. waste to energy.
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.

Responsible ownership (continued)

Pillar 5 (continued)

For the 2021–22 financial year, we identified a selection of our investments to assess the positive impacts they have contributed to, using this framework. Building on our reporting from prior years, we measured the positive impacts of 18 assets of our members' retirement savings. The number of investments measured within the Positive Impact Measurement Framework is deliberately limited to enable an authentic and bespoke analysis on the selected investments.

Affordable housing deeper dive

In addition to providing housing for 356 key workers, a deeper dive into information the key workers provided to us showed that 84% of these essential workers told us their commute time reduced as a result of this housing, with 45% of them now travelling 10 kilometres or less to work.

The essential worker housing occupants included 29 single parent families and their 50 children and 66 families in total and their 97 children.

Source: Aware Super, 2022. Outputs have not been pro-rated relative to percentage of ownership; these numbers indicate the positive outcomes from the whole asset. Note the reporting demonstrates the positive impacts of a selection of the assets Aware Super is invested in, however may not own 100% of the asset.

1 Overseas renewable generation has been converted to the equivalent number of Australian houses for comparison in this illustrative calculation.

2 This calculation is for illustrative purposes and has been undertaken on an individual investment basis using the regionally relevant electricity grid emissions intensity for that investment. For example, the electricity grid in Brazil has a lower emissions intensity than the New South Wales electricity grid.

Positive social impact

356
key workers have access to affordable housing

8.9m
new public transport passenger journeys (27.5 million km travelled)

Climate change solutions

8,797
GWh of renewable energy generated (enough to power roughly 1.47 million homes for a year in Australia[1])

5.4m
tonnes of CO_2 emissions avoided through renewable energy generation[2]

2
companies had detailed net zero emissions plans approved by their boards during the financial year

Sustainability and waste avoided

239
hectares of land where food is grown sustainably

377
hectares of protected streams

3
bodies of water where improving sustainability is being implemented

5,796
hectares of protected habitat

3,890 tonnes
of end-of-life tyres processed, resulting in:

- **1,330** tonnes of steel reclaimed
- **60** tonnes of char reclaimed
- **1,266** tonnes of fuel reclaimed

Sustainable Development Investing Assessment

Our Sustainable Development Investing Assessment used the sustainable development investing (SDI) definition to assess the impact of a selection of investments during the 2021–22 financial year.

As one of its first deliverables, the GISD, a United Nations formed alliance of which Aware Super is a member, created a definition of SDI that focused on what qualifies as investing in the SDGs. Members of the GISD saw there was a multitude of ESG definitions and frameworks, but none focused specifically on the SDGs. Aware Super has taken this definition and created an assessment framework to identify if our investments contribute in a net positive way to an SDG (e.g. through considering both the positive and negative impacts of an investment). How an investment contributes positively and how we measure and monitor that impact is recorded as part of the positive impact assessment. More information on this definition and an example of its use follows.

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

As an example, our private equity investment due diligence approach now includes an assessment of whether a particular investment would meet the GISD SDI definition. For our private equity portfolio over the past three years, we have identified 17 companies and 5 funds, representing $A774 million of investment capital, that are contributing positively to the SDGs. The SDG contribution by those investments is displayed to the right.

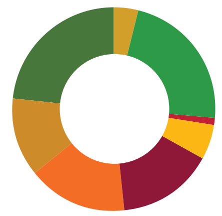
Another way we communicate our positive impact is through case studies, particularly where we may not be able to quantify outcomes. An example is provided on the next page for one of our private equity investments in Edrolo.

The SDI definition has been used as a way of translating the SDGs into practical steps that are part of the ESG assessment.

We adopted the SDI definition, which is incorporated as part of our investment due diligence. It is applied to prospective investments under our private markets portfolio, comprising infrastructure, property and private equity assets. The following questions are asked as part of the SDI defined process:

1. Does the investment positively contribute to the SDGs?
2. Do the investments' positive contributions outweigh any negative impacts on the SDGs?
3. Are the company's business practices and reputation aligned with the SDGs?
4. Is the investment SDI consistent?

Private equity SDG aligned investments



Goal 2: Zero Hunger	4%
Goal 3: Ensure healthy lives and promote well-being for all at all ages	23%
Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	1%
Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all	6%
Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	15%
Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	16%
Goal 12: Ensure sustainable consumption and production patterns	12%
Goal 13: Take urgent action to combat climate change and its impacts	23%

Responsible ownership (continued)

Pillar 5 (continued)

Case study

Private equity – Edrolo

Contributed to SDG

Aware Super has applied the SDI process to its co-investment with Blackbird in Edrolo.

Edrolo is an education software business that provides digital learning and print textbooks to secondary schools in Australia. As a headline SDG and indicator, the Aware Super team identified:

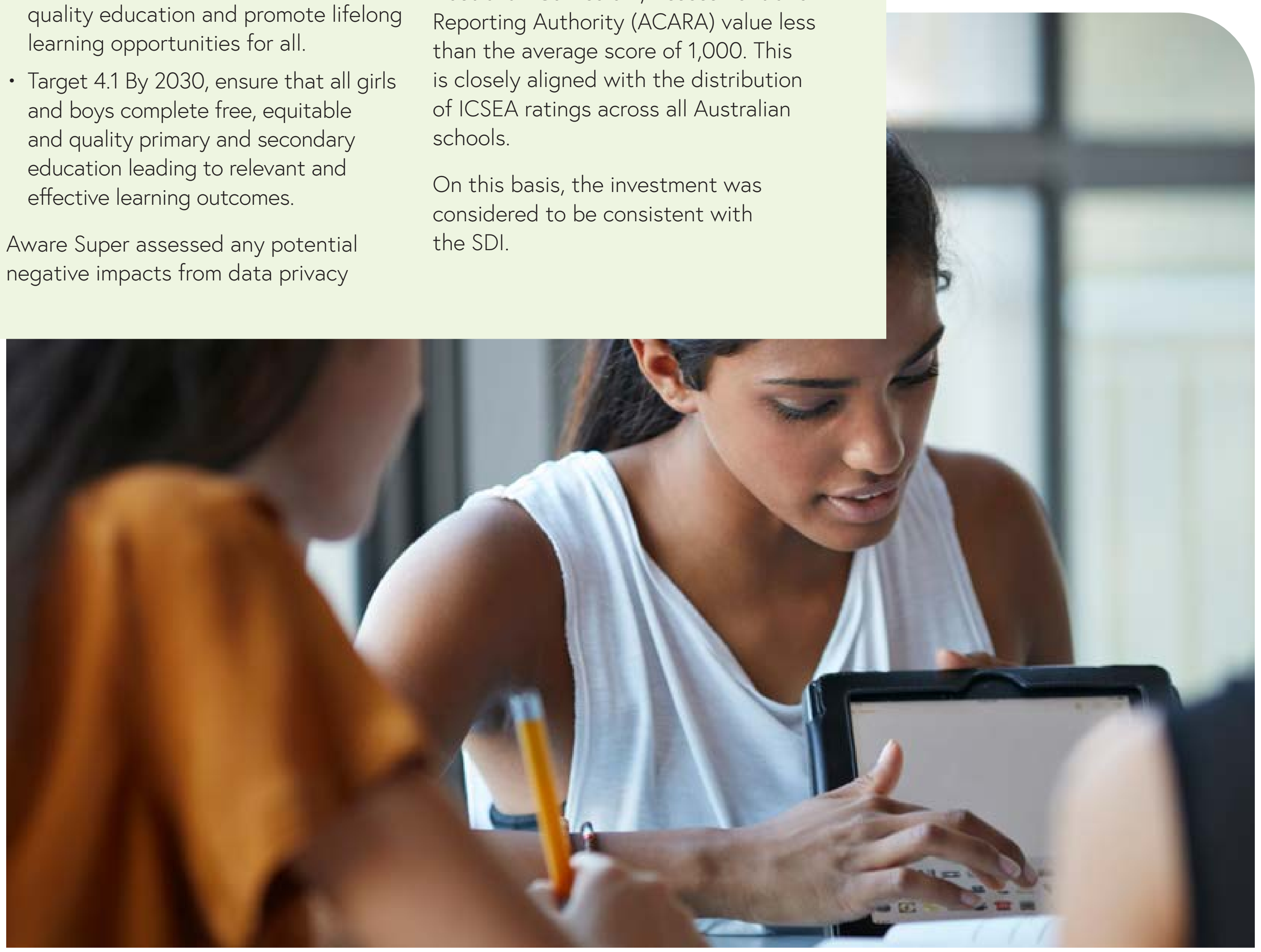
- Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
- Target 4.1 By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes.

Aware Super assessed any potential negative impacts from data privacy and protection, but determined these were well managed and did not offset the positive contributions under the headline SDG.

Aware Super will continue to evaluate Edrolo's contributions to the SDGs, focusing on the reach of its product to schools.

Almost 40% (36.8%) of Edrolo's 2022 client schools have an Index of Community Socio-Educational Advantage (ICSEA) calculated by Australian Curriculum, Assessment and Reporting Authority (ACARA) value less than the average score of 1,000. This is closely aligned with the distribution of ICSEA ratings across all Australian schools.

On this basis, the investment was considered to be consistent with the SDI.



Climate change

Contributed to SDGs

Climate change presents a risk to economic growth over the long term, which translates into investment risk and our members' retirement outcomes. We must consider risks posed by climate change to our investment portfolio and reduce and adapt to any residual risks.

We actively consider the impact of climate change in our investment decisions and in the ongoing management of our investments and the fund. With our focus on climate change, we are seeking to secure long-term returns for our members, while also having a positive impact on society and the environment. Since 2015 we have been reviewing and renewing our approach to climate change with close consideration to the climate science. Our Climate Change Portfolio Transition Plan (Transition Plan) was approved by the board in early 2020. It provides a framework of recommendations and targets to help us navigate the large, systemic and structural shifts that climate change requires.

Governance

The long-term success of our fund depends on a robust governance framework, including how we effectively manage the financial risks arising from climate change.

Aware Super Board	The Aware Super Board has ultimate responsibility for overseeing all investment decisions, including the management of any financial risks due to climate change. The board sets and approves the Investment Governance Framework, which combines the systems, structures, policies, processes and people employed to ensure we have a disciplined approach to investment risk management.
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 the issue of 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 overall implementation of the Transition Plan and the day-to-day work is overseen and managed by our Head of Responsible Investments. Both roles provide regular updates to the board, as well as updates on our actions to address climate change risk in line with our Transition Plan. A formal annual review of progress against the actions and goals of the Transition Plan is provided to the Investment Committee and board.
Responsible Investment (RI) team	The Responsible Investment (RI) team is a group of ESG professionals embedded within the investment team who focus on the day-to-day implementation of our Transition Plan, alongside all the investment sectors, including listed equities, infrastructure, property, private equity, credit and fixed income. From July 2022 Aware Super has a dedicated person in the Investment team focused on climate change and the Aware Super portfolio transition.

Climate change (continued)

Oversight and approval bodies				
Trustee Board & 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 Aware Super to manage its climate risk in order to help contribute to the large, systemic and structural changes that climate change requires.
Responsible for implementation – CIO/Head of Responsible Investments				

Strategy

Our investment approach focuses on delivering strong long-term returns to our members so we can grow and protect members' retirement savings.

Our climate change strategy, including the responsibility to manage financial risks associated with climate change and the transition to a low-carbon economy, forms an important part of our investment management approach. The Transition Plan and the annual reviews of our climate change strategy outline:

- our approach to identifying and integrating climate-related risks and opportunities into our investment decision making,
- any identified negative or positive impacts on the resilience of the investments, and
- any associated potential value impacts on our members' retirement savings.

The Transition Plan consists of three main pillars:

1 Climate-related opportunities

Investing in low-carbon opportunities and investing in companies that have a clear decarbonisation pathway.

2 Managing the transition

Portfolio future-proofing. Under this pillar, Aware Super continues to not invest in thermal coal mining as we do not see a credible climate transition pathway for this sector. We also continue to map our broader fossil fuel decarbonisation pathway.

3 Climate change and active ownership

As a responsible and active owner, we recognise we have an important role to work alongside companies in our portfolio on their decarbonisation journey and, where necessary, strengthen the ambition of companies to ensure they align with our own portfolio decarbonisation goals.

Further details on the three pillars, including specific objectives and progress are discussed in the Climate-related metrics and targets section of this report. They all align to our overarching goal, to reach net zero portfolio emissions by 2050, with a 45% reduction in emissions by 2030 from a 2020 baseline.

As the science behind tackling climate change constantly develops, we maintain a flexible and agile approach, and may incorporate new scientific developments into our future climate strategy.

We will undertake a full review of our climate strategy in the 2022–23 financial year. We look forward to publicly releasing this, along with updated targets and goals in the next year.

Managing climate risks

We have a sophisticated risk management process that encompasses a wide range of risks, including investment, operational, reputational and regulatory. Risk is ultimately owned by the Chief Risk Officer, however, it is the responsibility of all employees to be aware of and integrate the risk framework into their roles where appropriate.

Prior to the 2021–22 financial year, climate-related risks were monitored and managed within the investment risk capability, with the primary purpose to mitigate the impact on our members' retirement savings. We are mindful that climate-related risks must be considered at both an investment and corporate level.

Climate change was incorporated into the wider risk taxonomy during the year, as part of the ESG material risk. The material risks, including ESG material risk, are assessed quarterly as part of the investment processes. The results of these assessments are overseen by the Audit, Risk and Compliance Committee and the board, with action plans created where any of these material risks are found to be outside of our risk appetite. In 2022–23 the taxonomy will specifically include climate change as a business unit risk under each group executive, ensuring it receives the broad spectrum of organisational coverage this risk demands. The risk definition is designed to identify and manage climate change risk with wide risk parameters. This will cover the physical, transition and liability climate risks identified through due diligence and ownership of our investments, as well as more broadly through our business operations and third-party service providers.

In the investment context we use a range of processes and tools to assess, manage and monitor climate risks and opportunities within the portfolio. Our climate risk identification process can be summarised as follows.

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

The climate-related risks considered include:

Physical risks

During the year we continued to see devastating natural disasters identified by climate scientists to have highly likely been made worse by rising global temperatures. These have included wildfires, extreme heat events and repeated record-breaking flooding.

Aware Super recognises the importance of assessing the risks to investments from the potential physical impacts of climate change in the short, medium and long term, however climate modelling of physical climate risks remains challenging.

During the year we continued ESG due diligence to undertake a desktop materiality-tiered assessment to determine potential acute and/or chronic physical risks in prospective direct investments.

The risks considered include increased frequency and magnitude of extreme weather events, such as cyclones, changing rainfall patterns, flooding, drought, heat stress and sea level rises over three timeframes – the recent past, the present and the period 2030 to 2050.

Assets deemed to have a moderate or high risk in any one of the categories may then be assessed using a larger and more granular series of data, maintained by an external expert provider. We continue to review products and providers in the market as methodologies become more sophisticated.

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

Transition risks

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

In addition, we continue to develop a robust methodology for including relevant transition scoring or ratings

Climate change (continued)

into investment decision making. We incorporate a transition scoring methodology into our internal Australian systematic equities strategy.

While regulatory and legal requirements may ultimately determine how we assess and report climate transition risk, because we recognise the importance of this activity, we continue to consider implementation of meaningful transition scoring methodologies for our direct and unlisted assets outside those formal requirements.

Opportunities

We proactively seek investment opportunities in sectors or markets assessed to be strategically placed to participate in the low-carbon transition. Examples include renewable energy investments, energy storage solutions, electric vehicle infrastructure and other technology and transportation solutions. We also take up opportunities to work alongside our existing investments as they embark on their own decarbonisation pathways.

It is anticipated our approach to climate-related risk identification and management will continue to evolve as new and emerging risks are identified.

Climate-related metrics and targets

Aware Super has committed to achieving net zero portfolio emissions by 2050. Our current interim target is to achieve a 45% reduction in emissions from our 2020 portfolio emissions baseline by 2030.

Our overarching target, based on the latest science, is based on the Paris target to limit global warming to as close to 1.5°C as possible above pre-industrial levels. We target emissions reduction through our investment and portfolio holding decisions, either directly or via engagement, made across both listed and unlisted investments. To authentically set a net zero emissions pathway we recognised we must define, understand, measure and monitor our investment portfolio emissions profile. Our Transition Plan sets specific and measurable goals to reduce portfolio emissions in each of the investment sectors, over the short, medium and long term. We will continue to review and report against these targets annually.

We also consider and engage with key stakeholders on the impacts and opportunities created through the transition for workers and society. During the 2021–22 financial year, Aware Super partnered with the Investor Group on Climate Change (IGCC) and three other investors to create a deep dive report and an action plan for investors to support a just and equitable transition for workers and communities directly impacted by the transition away from fossil fuels. This publicly-available report, Empowering Communities: How investors can support an equitable transition to net zero provides a framework for investors, including Aware Super, to play an important role in supporting a more equitable transition in Australia. We look forward to reporting on our progress in this important area in future years.

We have committed to being transparent with our climate targets and to provide annual updates on how we're progressing against those self-imposed targets. We recognise to achieve our long-term targets we must have short- and medium-term goals to guide us towards the ultimate net zero emissions end ambition.

2021–22 targets and outcomes

Prior years identified target for 2021–22	Progress made during 2021–22	Evaluation of progress made during the year
Complete portfolio-wide emissions baselining	The portfolio emissions baselining work was completed, with valuable insights gained on a sector-by-sector basis. For more detailed analysis, see page 24.	✓
Commence direct asset climate change emissions reduction planning	While more in-depth work will continue in the 2022–23 financial year and beyond, completion of the emissions baselining provides Aware Super with a excellent platform to accelerate this work. Pleasingly, a number of our investments have commenced or completed detailed emissions reduction pathways and plans during 2021–22.	➔
Commence design of sectoral emissions reduction pathways	Due to the complexity of the emissions baselining, this work will commence in 2022–23.	X
Consideration and background analysis on implementing a shadow price on carbon	Initial discussions have occured about the project scope. The project will be undertaken in the first half of the 2022–23 financial year.	➔
Incorporating deeper scenario analysis around a range of transition pathways	Aware Super has undertaken more in-depth scenario analysis on our portfolio in 2021–22. For more detail, see page 26.	✓
Incorporating transition scoring into our ESG due diligence, where appropriate	We continued to strengthen our consideration to climate transition risk, particularly in our listed equities portfolio analysis and in listed company engagement, including through Climate Action 100+. For the next phase of transition and physical risk analysis on our portfolio, see the 2022–23 financial year targets.	➔
Elevation of climate change risk responsibility and governance	During 2021–22 climate change as a material risk was incorporated into the wider risk taxonomy as part of the ESG material risk.	✓
Green bond investing	During 2021–22 Aware Super continued due diligence on green and sustainability-linked bond opportunities. For examples of our green and sustainability bonds during the 2021–22 financial year, see page 25.	✓

✓ Completed ➔ Partially completed X Not completed

Climate change (continued)

More detailed examples of our activities during the year to June 2022 include:

Pillar 1

Low-carbon investments: Emissions reduction and investment decisions

Target: Undertake a portfolio-wide emissions baselining.

Progress: A significant portion of the Aware Super investment portfolio has now achieved an emissions baseline.

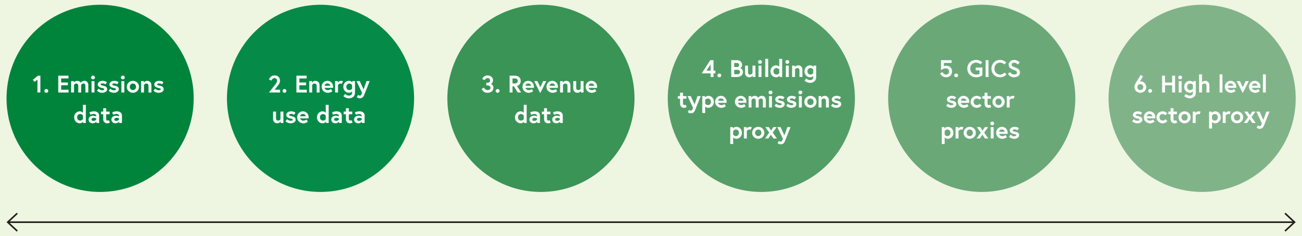
Next steps: Over the next three years we will use these outputs to set measurable near-term emissions reduction targets and a longer-term 2050 net zero emissions pathway for our investment sectors, together with individual asset targets for large, directly owned investments.

Portfolio-wide emissions baselining analysis

Aware Super's 2019 Transition Plan (board approved February 2020) highlighted that setting meaningful emissions-reduction targets required a portfolio-wide Scope 1 and 2 emissions baseline be undertaken.

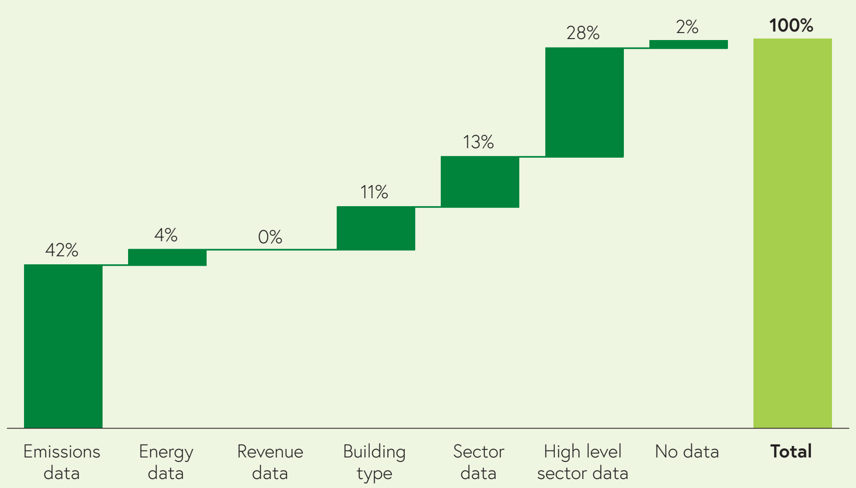
It was acknowledged that external data providers already enabled us to undertake emissions baselining of our listed portfolios, however, there was no such accessible option for the unlisted assets. During the year Aware Super's Investment team worked with an external consultant, our directly owned companies and our external fund managers to gather data about the asset emissions for the year to 30 June 2020.

Information was requested from our investments and fund managers to gather the most accurate data possible about each investment, as illustrated in the diagram below.



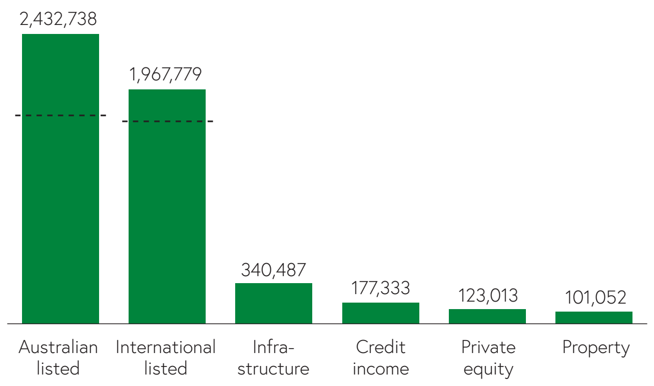
In total we requested data from over 1,900 investments. The information we received varied from audited emissions data to just the name of the company. Where we were able to use calculated emissions or estimated emissions (proxies) based on other similar companies in our portfolio or less accurately, through other companies in the same sector, these emissions were then pro-rated according to the percentage of the debt and/or equity Aware Super owns, providing us with the financed emissions. Unfortunately, for a proportion of our investments we weren't able to calculate financed emissions at all. Reducing this category will be a focus for future portfolio emissions exercises.

Data type provided by % of portfolio value



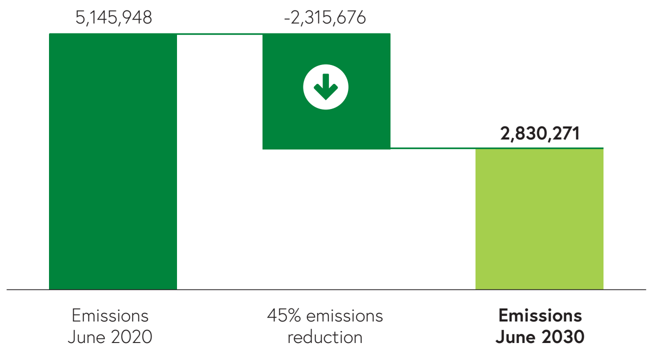
Emissions baseline by investment sector

Financed emissions (tCO_2e)



--- Dotted line indicates estimated June 2022 emissions.

Financed emissions (tCO_2e)[1]



1 Scopes 1 and 2 considered for this scenario.

For the investments we were able to get or calculate data for, our estimated financed emissions in 2020 were 741,885 tonnes of carbon dioxide equivalent (tCO_2e). This represents approximately 24% of our investment portfolio value in June 2020. Financed emissions for the listed equity portfolio (c.50% of investment) for the year to 30 June 2020 were calculated to be an estimated 4.4 million tCO_2e.

As a standalone number, these emissions are not necessarily insightful. The real value is in the underlying analysis of the data, company by company and fund by fund, and applying our emissions reduction targets to that data. For example, where do we want those financed emissions to reduce to according to our 2030 and 2050 targets, even as our investment portfolio continues to grow? Additionally, repeating this exercise every two to three years will enable us to compare side by side how we're progressing. We hope to see more of our investments reporting actual emissions data in future years, to improve data quality. We'll work with our direct investments and fund managers to deliver this.

For the sectors we have completed an estimated emissions baseline for, applying our 45% emissions reduction by the 2030 target would indicate that the same sectors of our portfolio will need to have Scope 1 and 2 emissions c.2.3 million tCO2e lower than in the 2020 baseline, as illustrated above right, on a like-for-like portfolio size.

We recognise our targets will evolve as future analysis is undertaken to integrate Scope 3 emissions. Our goals will be transparent and reported annually as part of our TCFD-aligned reporting. We will also seek to include additional investment sectors into the emissions analysis as appropriate methodologies are introduced.

Target: Achieve a targeted emissions reduction compared to the baseline for our listed equities portfolio. The current target is a 30% reduction in emissions intensity, against a 2019 baseline, by 2023 for our listed equities portfolio.

Progress: Through the implementation of our carbon-constrained index, between December 2019 and June 2022 we have achieved a reduction in emissions intensity of 45% across our listed equities portfolio.

Target: Annual investment targets for climate-related and low-carbon investments.

Progress: Aware Super invested approximately $A268 million in green and sustainability-linked bonds during 2021–22. Two examples of these bonds are:

- $A20 million KFW green bond, which is financing projects in the areas of climate change and the environment, globalisation, social change, digitalisation and innovation. These have included wind energy projects (onshore and offshore); photovoltaic panels; hydropower or biogas energy; electricity and heat generated from solid biomass, biogas; geothermal; grids and plants for the storage of heat or power; and feed-in by renewable energy.
- $A50 million Queensland Treasury Corp (QTC) green bond, which is supporting Queensland's transition to a low-carbon, climate-resilient and environmentally sustainable economy and specifically funding projects including the Sunshine Coast Solar Farm and Gold Coast Light Rail.

Climate change (continued)

Pillar 2

Managing the transition: Portfolio future-proofing

As part of the Transition Plan, we set several targets to help future-proof our investment portfolio. Some of these have been detailed elsewhere in this report, namely our approach to undertake physical risk analysis of climate change assessments and our 2020–21 financial year decision to divest thermal coal miners from the entire portfolio.

One of the primary targets under our portfolio future-proofing during the year was to undertake a deeper dive scenario analysis to better understand future risks to our portfolio value under different climate scenarios. A summary of that work is outlined below.

Portfolio transition risk analysis through scenario analysis

Implementing our 2020–21 financial year goal to strengthen our scenario analysis, Aware Super's Responsible Investment and Strategy teams worked with a carbon and climate modelling organisation to undertake detailed climate scenario analysis on our listed equities portfolio, which represents approximately half of our investment portfolio.

The purpose of the scenario analysis was to provide us with a deeper understanding of the potential financial risk to our listed equities portfolio under different climate scenarios. The scenarios we tested our portfolio under were based on the Shared Socioeconomic Pathways (SSPs) set of climate scenarios developed with respect to the sixth UN Intergovernmental Panel on Climate Change (IPCC AR6). The scenarios used were:

High carbon 4°C pathway

The no-policy SSP2 scenario, indicative of a 3–4°C global average temperature rise, implies the world follows a path in which social, economic and technological trends do not shift markedly from historical patterns, effectively a 'business-as-usual' scenario.

Low-moderate carbon 2°C pathway (Paris 2015 aligned pathway)

With a 66% chance of limiting global mean warming to 2°C, the SSP2-RCP2.6 emissions pathway is representative of a scenario leading to lower GHG concentration levels. It is a so-called 'peak' scenario, where GHG emissions are reduced substantially over time.

Very low carbon 1.5°C pathway

Most optimistic low-carbon pathway with 66% chance of limiting warming to 1.5°C (SSP1-RCP1.9). Known as RCP1.9, this pathway focuses on limiting warming to below 1.5°C, the aspirational goal of the Paris Agreement.

Inevitable policy response

This defines a different transition pathway for every sector and turns this into a global-equivalent carbon budget and set of trajectories for each sector, with corresponding relevant carbon prices modelled.

The scenario modelling undertaken applied different carbon pricing assumptions to our investment portfolio, dependent on the climate scenario. The high carbon 4°C pathway, however, assumes there are no to minimal climate policy changes and therefore no carbon pricing applied globally on our investments. This carbon pricing effectively then applies a transition risk forward-looking company value impact methodology, through cash flow changes from carbon liabilities. Share prices, cash balances and investor sentiment may all decline for companies with the higher-carbon liabilities, to the extent that some companies may not be able to survive.

The scenario analysis has provided the board with valuable insight into potential impacts on our portfolio value under different climate action scenarios, from a transition risk perspective only. On this basis there was no recommendation to change Aware Super's strategic asset allocation at this time. It is recognised there are some gaps in the analysis that we will seek to address in future years, including analysing the financial implications of physical climate risk on our investments and inclusion of our direct and unlisted investment portfolio into the analysis. Longer term, we will also consider more meaningful incorporation of sector-wide and individual company transition progress.

Pillar 3

Climate change and active ownership

We have a responsibility to engage with the companies in which we invest, to better understand their transition to a low-carbon economy. Within our active ownership program, we prioritise engagement with the top 20 emitters (Scope 1 and 2 emissions[1]) in our Australian-listed equities portfolio as well as industries with material Scope 3 emissions. During the year, directly and in collaboration with ACSI, we participated in almost 100 engagements across 34 companies and discussed their climate transition strategy. Topics addressed during these engagements include:

- commitments to an annual 'Say on Climate' vote for high-emitting companies
- deep dives into companies' decarbonisation strategies and pathways, including encouraging setting of (and understanding) net zero or other emissions reduction across short, medium- or long-term targets
- strengthening climate governance, including TCFD disclosure and board climate-related skills and capability
- understanding how, or requesting that a company incorporate climate-related key performance metrics into senior executives' remuneration
- a commitment and, where relevant, a plan to ensure an equitable transition for workers and the community impacted by decarbonisation
- physical climate-risk assessment and resilience plans.

A key outcome that we track is the commitment of companies to a net zero target.

✓ For the largest 50 Australian-listed equity holdings: **66% of companies have committed to Scope 1 and 2 net zero targets and 14% of companies have committed to Scope 3 net zero targets**.

✓ For the largest 50 international listed equity holdings, **48% have committed to net zero targets**.

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

1 Scope 1 greenhouse gas emissions are the emissions released to the atmosphere as a direct result of an activity. These are referred to as direct emissions. Scope 2 greenhouse gas emissions are the emissions released to the atmosphere from the indirect consumption 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 greenhouse gas emissions other than Scope 2 emissions that are generated in the wider economy. They occur as a consequence of the activities of a facility, but from sources not owned or controlled by that facility's business.

Case study

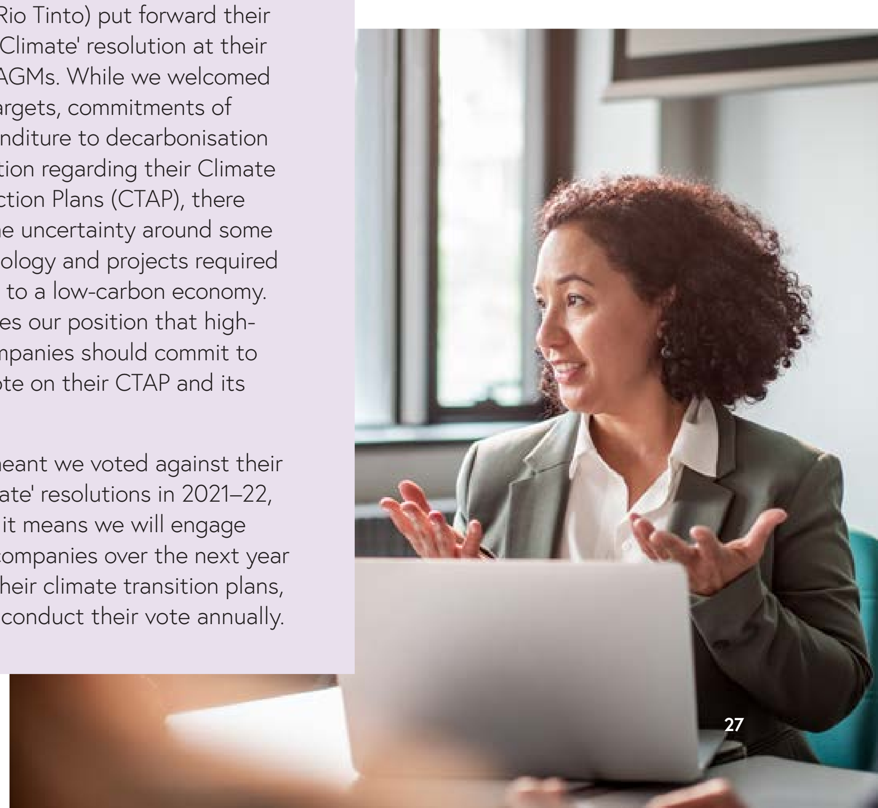
'Say on Climate'

In collaboration with ACSI, we engaged with some of the highest emitters in the Australian-listed market to encourage them to commit to an annual voluntary advisory climate resolution. Commonly referred to as the 'Say on Climate', this resolution allows investors to vote on a company's climate transition strategy at their AGM.

This tool is important for investors to be able to hold their investee companies to account on their climate action. Although it is non-binding and advisory, a significant 'against' vote acts as a point for investors to engage with the company to improve its plan and escalate if no improvements are seen.

During the 2021–22 financial year, several of the highest emitting companies in the Australian market (BHP, Woodside, Santos and Rio Tinto) put forward their first 'Say on Climate' resolution at their companies' AGMs. While we welcomed additional targets, commitments of capital expenditure to decarbonisation and information regarding their Climate Transition Action Plans (CTAP), there remains some uncertainty around some of the technology and projects required to transition to a low-carbon economy. This reinforces our position that high-emitting companies should commit to an annual vote on their CTAP and its progress.

While this meant we voted against their 'Say on Climate' resolutions in 2021–22, importantly, it means we will engage with these companies over the next year to improve their climate transition plans, targets and conduct their vote annually.



Climate change (continued)

Case study

Climate Action 100+

We are one of the lead investors within Climate Action 100+ (CA100+), a global, investor-led initiative, using engagement with the world's largest corporate GHG emitters to highlight investor expectations around their climate transition and decarbonisation strategies. Aware Super collaborated with IGCC and CA100+ to develop Corporate Climate Transition Plans: A guide to investor expectations.

In March 2022 CA100+ released the results of the second CA100+ benchmark to evaluate company progress against three high-level goals:

- reducing GHG emissions
- improving climate-related governance
- strengthening climate-related financial disclosures.

We have engaged with companies in the energy, utilities and mining sectors on the credibility and efficacy of their climate-transition strategies, including total emissions reduction targets. The benchmark scoring has helped to highlight areas for improvement.

Examples include:

- Assessing companies' new Scope 1, 2 and 3 emissions reduction targets and the alignment to the goal of limiting global warming to 1.5°C.
- Highlighting the need to commit to align capital expenditure plans with long-term GHG reduction targets and the Paris Agreement's objective of limiting global warming to 1.5°C. The benchmark has enabled us to ask targeted questions on capital expenditure linked to decarbonisation strategies, including the merits and feasibility of carbon capture and storage (CCS), blue hydrogen and green hydrogen.

We will continue to engage with these companies to ensure improved disclosure and more ambitious targets and strategies, particularly where Scope 3 emissions are material and increasing.

Another focus for our engagement on credible and meaningful targets includes companies with expanding fossil fuel projects with a reliance on offsetting these emissions, rather than decarbonising their business.

To support engagement in the energy sector, Aware Super collaborated with IGCC on the publication of two new reports, A changing climate for Australian gas: A 1.5°C scenario analysis of new Australian gas projects, based on modelling by leading global energy consultancy Wood Mackenzie, and, Unlocking investment in the Australian hydrogen industry to support our engagement and the development of an Australian hydrogen industry.

Case study

Climate change and equitable transition

An important part of transitioning businesses away from emissions-intensive industries is recognising the significant impact on the workers and communities these industries support. A large part of our engagement with companies transitioning is ensuring their workers and the communities in which they operate have opportunities for jobs and retraining to ensure the transition is orderly.

Examples include:

- **Origin Energy:** We welcomed Origin Energy's decision to close the Eraring coal-fired power station earlier than planned given it will materially reduce the emissions profile of the company. On the other hand, it will also have a significant impact on workers and the community. We have engaged with Origin regarding further disclosure around its transition plan for its employees and community support. We are particularly focused on an equitable transition for employees and the communities these closures will affect and this will remain a key focus leading into their 2022 AGM.
- **BHP:** We engaged with BHP regarding the closure and rehabilitation of its New South Wales Energy Coal facility. We noted positively that BHP has taken responsibility for an orderly and equitable transition and will allocate financial resources and publicly disclose its progress.

2022–23 financial year and beyond initiatives

Theme	Activity proposed
Transition Plan refresh	Undertake a full review of the Aware Super Transition Plan.
Aware Super sector emissions reduction targets	Work with the infrastructure sector to have an approved sector emissions reduction target.
Direct investment emissions reduction targets	Work with a selection of our direct investments on setting emissions reduction targets and identifying emissions reduction activities to achieve those targets.
Climate scenario analysis	Continue to develop the sophistication of the Aware Super portfolio climate scenario analysis, incorporating deeper analysis around a range of transition pathways.
Portfolio emissions evaluation for 2022–23 financial year	Design and plan 2022–23 financial year portfolio emissions data gathering.
Shadow carbon pricing	Rescheduled from 2021–22 to the 2022–23 financial year, we will finalise a methodology and start implementing a shadow carbon price into relevant assets/investments.
Physical and transition risk assessment	Continue to develop our desktop analysis methodologies for incorporating climate physical and transition risks, reflecting the latest research, into investment analysis.
Climate change stakeholder engagement	Continue to deepen engagement with priority listed companies and direct investments around climate change risks and opportunities, emissions reduction plans and alignment with our portfolio emissions reduction targets.
Advocacy, policy groups and initiatives	Continue prioritisation of the most critical advocacy and policy work, internally and with external organisations and initiatives.

Climate change (continued)

Climate change advocacy

Climate risk is a complex and evolving area. We collaborate and share knowledge with other industry participants to help us to develop a best-in-class approach to advancing our net zero aspiration and to contribute more broadly to the transition to a low-carbon economy.

We participated in a range of industry forums and collaborations to continue our climate change advocacy, including:

- The Investor Agenda: Investor Climate Action Plan
- signatory to the 2021 Global Investor Statement to Governments on the Climate Crisis
- providing a submission to the APRA draft Prudential Practice Guide on Climate Change Financial Risks
- participating in the APRA Climate Risk Self-Assessment Survey
- Climate Action 100 (CA100+), as lead investor, plus a member of the CA100+ Oil and Gas Working Group
- Investor Group on Climate Change (IGCC)
  - member of Physical Risk and Resilience Working Group
  - founding signatory to the Climate League 2030 initiative, which requires us to commit and report against our Paris-aligned climate goals
- UN-supported Principles for Responsible Investment (PRI) signatory, which involves reporting on our approach to responsible investment, including climate change, annually
- Australian Sustainable Finance Initiative (ASFI).

Our commitment in action: Climate League 2030

We have joined the IGCC-established Climate League 2030 as a foundational supporter, reflecting our desire to show leadership in climate change advocacy. This 10-year initiative aims to further support and take deeper action to reduce Australia's annual GHG emissions by at least a further 230 million tonnes, in addition to what is already projected by 2030.

We have committed to support this goal by pledging at least one new action each year under three themes. Our commitments and achievements for year two (2021–22 financial year) are set out below.

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

aware.com.au/member/investments-and-performance/our-approach-to-climate-change

Increasing capital allocated to climate solutions — Theme 1

Pledge: Aware Super commits to investing at least $A100 million in green bonds.

Achievement: We invested $A268 million in green and sustainability-linked bonds.

Corporate engagement on climate change — Theme 2

Pledge: Aware Super commits to engaging directly with at least five ASX-listed companies to improve their climate strategies and commitments to net zero (this could include committing to TCFD-aligned reporting; setting targets that are Paris Agreement-aligned).

Achievement: During the year Aware Super led 26 direct engagements across 11 companies and discussed their climate transition strategies.

All these companies are reporting in line with the TCFD framework and all except one have a net zero target. While these companies have set net zero targets, the focus has been on encouraging more ambitious short- and medium-targets and on executing a climate transition strategy that is aligned to the goals of the Paris Agreement.

Outcomes achieved during the year include:

- earlier closure of a coal-fired power station
- release of more detailed climate transition action plans from four companies that received a 'Say on Climate' vote at their AGM
- more ambitious Scope 1 and 2 emissions reduction targets
- increased commitment to capex for decarbonisation from two companies
- increased disclosure on industry associations from two companies, with one company withdrawing its membership to an industry council that was not aligned with its own climate policy and strategy.

Commitment to carbon neutral operations — Theme 3

Pledge: Aware Super commits to achieve carbon neutrality for our operations in 2022 through the Climate Active Organisation carbon neutral certification. The Australian Government's carbon neutral certification is the most rigorous and credible carbon neutral certification available.

Achievement: Aware Super achieved Climate Active Organisation carbon neutral certification for our business operations in June 2022 and will continue to pursue this certification in the future.

Recognition and awards

We'd love your feedback on our report

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

corporate.responsibility@aware.com.au

Canstar[1,2]

Chant West[3,6]

Money magazine[5]

Rainmaker

Responsible Investment Association Australia

SuperRatings[4]

1 The Canstar 2022 Outstanding Value Award was received in March 2022 for the Aware Superannuation Fund.

2 The 2022 Canstar Most Satisfied Customer – Superannuation was received in May 2022.

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4 SuperRatings Pty Ltd ABN 95 100 192 283 AFSL 311880 (SuperRatings), a third party company, has issued the Platinum rating to Aware Super. This rating is SuperRatings' highest rating; for details on their ratings, criteria and methodologies see superratings.com.au. Ratings are general advice only and have been prepared without taking account of your objectives, financial situation or needs. Consider your personal circumstances, read the product disclosure statement and seek independent financial advice before investing. The rating is not a recommendation to purchase, sell or hold any product. Past performance information is not indicative of future performance. © 2022 SuperRatings. All rights reserved.

5 *Money* magazine's Best of the Best Award 2022 for Innovation and Investment Leader. The Award recognises the major role Aware Super plays in the superannuation industry and that we're one of Australia's most consistent funds for high risk-adjusted returns. It also reflects our recent innovations including the new lifecycle default product, our investment in affordable housing and our commitment to responsible ownership.

6 Chant West © Zenith CW Pty Ltd ABN 20 639 121 403 (Chant West), AR of Zenith Investment Partners Pty Ltd ABN 27 103 132 672, AFSL 226872/AFS Rep No. 1280401, 2022. Chant West ratings (assigned December 2021) are limited to General Advice only. Individuals should seek their own independent financial advice, read the PDS or offer document and consider the appropriateness of any financial product in light of their own circumstances and needs before making any investment decision. The advice has been prepared without considering the objectives, financial situation or needs of any individual, including target markets of financial products, where applicable, and subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Past performance is not an indication of future performance. Chant West does not make any representation or give any guarantee or assurance as to the performance or success of any financial product based on the ratings. Chant West may charge the product issuer, fund manager or related party for use of ratings. Chant West does not accept any liability whether direct or indirect, arising from use of the information. Chant West ratings and research are prepared by Chant West and are not connected in any way to research and ratings prepared by any of our related entities. Go to www.chantwest.com.au for full information on Chant West's research methodology, processes, ratings definitions and FSG.

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