

# Climate Change Portfolio Transition Plan

## Two years of progress



### Our goal, our achievements

We believe that climate change is one of the most significant financial risks to our investment portfolio. If we are to deliver strong long-term returns to our members, we must take steps to address it.

We consider the impact of climate change in all our investment decisions and on-going management of our investments. Since 2015 we have continuously reviewed and renewed our approach to climate change in line with advances in understanding and climate science. In early 2020 our Climate Change Portfolio Transition Plan (CCPTP) set out recommendations and targets and we measure our progress against these each year.

#### Addressing climate change

Between October and November 2021, the United Nations Climate Change Conference, COP26 saw almost 200 countries agree the Glasgow Climate Pact. This global agreement will accelerate action on climate change this decade and keep the Paris Agreement target of reducing global warming to 1.5 degrees Celsius a possibility. It's far from a done deal, however. According to the COP26 President, the Rt Hon Alok Sharma MP

"We can now say with credibility that we have kept 1.5 degrees alive, but its pulse is weak, and it will only survive if we keep our promises and translate commitments into action."

At Aware Super, we are playing our part in achieving the ambitious goals laid out under the Paris Agreement by creating and delivering on our Climate Change Portfolio Transition Plan.



# Progress against our goals

The aim of our CCPTP was to better understand the existing and potential future impacts of climate change on our members' retirement savings, the environment and the community. This meant a detailed analysis of advancements in climate science, evidence of the impacts of climate change, and a deeper understanding of global targets to reduce emissions and ways of transitioning to a low-carbon economy.

Aware Super has set short, medium and long-term goals which we use as a roadmap to help us determine where we are now, and to understand, measure and monitor how we're tracking against the goals we are setting.

## Destination Net Zero

The better the quality of information on the impacts of climate change on financial markets and the global economy the better able we all are to address it. It's for this reason that the Taskforce on Climate-related Financial Disclosures (TCFD) was created – to strengthen reporting of climate-related financial information.

We are committed to reporting annually against our climate goals and targets and our inaugural Destination Net Zero Report set out Aware Super's strategy and approach to managing climate change risks – prepared in accordance with the recommendations from the TCFD. Our 2022 report will be released in November 2022.

## Highlights for this year

**\$268 million**

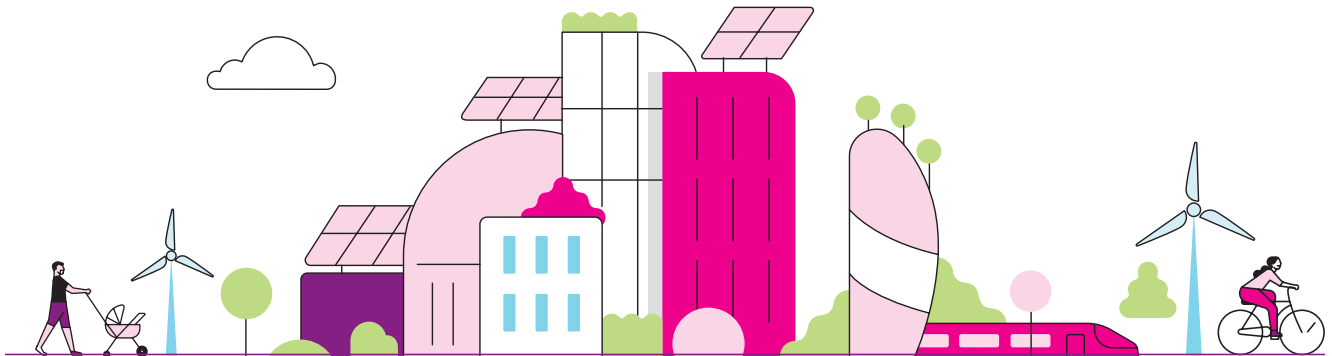
Investing \$268 million in green and sustainability-linked bonds exceeding our target of \$100m.

**45%**

Achieving an emissions intensity reduction of 45% across our listed equities portfolio, exceeding our goal of 30% by 2023.

**100\***

Directly and in collaboration with ACSI we participated in almost 100 engagements across 34 companies.



\* For the largest 50 of our 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** and for the largest 50 of our international listed equity holdings, **48% have committed to net zero targets**.

## Overarching targets

**1**

**Achieve a net-zero emissions target** across the Aware Super investment portfolio by 2050.

**2**

**Achieve a 45% emissions reduction** on a 2020 baseline from our portfolio by 2030.

**3**

**Achieve a 30% reduction in the emissions intensity** of the listed equities portfolio by 2023 on a 2019 baseline.

# Our 2022 achievements

Our 2022 achievements against our targets are set out below.



## Pillar 1: Climate related opportunities

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

**Target:** Undertake a portfolio wide baselining

**Progress:** Over 70% of the Aware Super investment portfolio now has an emissions baseline

**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.



## Pillar 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.

**Target:** portfolio transition risk analysis through scenario analysis

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 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.



*At Aware Super, we are playing our part in achieving the ambitious goals laid out under the Paris Agreement by creating and delivering on our Climate Change Portfolio Transition Plan.*

# Our 2022 achievements (continued)

## Pillar 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.

Target	Achievement
<b>Industry advocacy and leadership</b>	<ul style="list-style-type: none"> <li>• We participated in a range of industry forums and collaborations including</li> <li>• Climate Action 100 (CA100+), as lead investor, plus a member of the CA100+ Oil and Gas Working Group</li> <li>• The Investor Agenda: Investor Climate Action Plan</li> <li>• Signatory to the 2021 Global Investor Statement to Governments on the Climate Crisis</li> <li>• Submitted to APRA draft Prudential Practice Guide on Climate Change Financial Risks</li> <li>• Investor Group on Climate Change (IGCC)</li> <li>• Member of Physical Risk and Resilience Working Group</li> <li>• Founding signatory to the Climate League 2030 initiative, which requires us to commit to and report against our Paris-aligned climate goals</li> <li>• UN-supported Principles for Responsible Investment (PRI) signatory which means reporting on our approach to responsible investment, including climate change, annually</li> <li>• Australian Sustainable Finance Initiative (ASFI)</li> <li>• Aware Super collaborated with IGCC and CA100+ to develop Corporate Climate Transition Plans: A guide to investor expectations.</li> <li>• To support engagement in the energy sector, Aware Super collaborated with IGCC on the publication of two new reports, <u>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</u>, and, <u>Unlocking investment in the Australian hydrogen industry to support our engagement and the development of an Australian hydrogen industry</u>.</li> </ul>
<b>Actively engage with fund managers and companies we are invested in to set emission reduction targets</b>	<ul style="list-style-type: none"> <li>• Directly and in collaboration with ACSI we participated in almost 100 engagements across 34 companies and addressed topics including:</li> <li>• Commitments to an annual 'Say on Climate' vote for high-emitting companies</li> <li>• Deep dives into decarbonisation strategy and pathways, encouraging setting of (and understanding) net zero or other emissions reduction across short, medium or long-term targets</li> <li>• Understanding how, or requesting incorporation of climate-related key performance metrics into senior executives' remuneration</li> <li>• Commitment and (where relevant) a plan to ensure equitable transition for worker and communities impacted by decarbonisation</li> </ul>
<b>Commitment of companies to a net zero target</b>	<ul style="list-style-type: none"> <li>• For the largest 50 of our 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</li> <li>• For the largest 50 of our international listed equity holdings, 48% have committed to net zero targets.</li> </ul>



# What's next?

## Our proposed activities

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

## Awards & Recognition

 <p>Responsible Investment Association Australasia (RIAA) 2022 Responsible Investment Leader</p>	 <p>Responsible Asset Allocators Initiative (RAAI) Leaders List Award 2022</p>	 <p>Recognised by the PRI as a leader for our climate change reporting (2020)</p> <p>Recognised by the PRI as a leader for our approach to the appointment, selection and monitoring of fund managers (2019)</p> <p>Only Australian super fund to be awarded the global ESG Incorporation Initiative of the Year by PRI in 2019</p>
 <p>Inaugural 2022 Best Fund: Responsible Investment by Chant West<sup>1</sup></p>	 <p>Rainmaker Information Environmental, Social and Governance (ESG) Leader 2022</p>	

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