Responsible Investment Report 2024

Helping our members feel confident in planning and living their best retirement

aware super

Acknowledgement of Country

In the spirit of reconciliation, healing and truth-telling, Aware Super acknowledges as a whole the Traditional Custodians of the Country throughout Australia. We pay our deepest respects to Elders past and present.

Uluru Statement from the Heart

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

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

For our full Uluru Statement from the Heart commitment, see:

aware.com.au/corporatesustainability

Inside this report

Issued September 2024.

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 Annual Report 2024 is one way we live up to our purpose, to be a force for good in super and retirement, by sharing with our members and other stakeholders our performance, achievements and future outlook. Aligned to the International Integrated Reporting <IR> Framework, our report includes the resources (known as 'capitals') we use to create services, products and value for our stakeholders.

For more on how our investment options performed this financial year, see:

aware.com.au/investmentperformancereport2024

For our latest investment returns, see:

aware.com.au/investmentreturns

Our annual reporting documents include:

Annual Report 2024

aware.com.au/annualreport2024

Investment Performance Report 2024

aware.com.au/investment performance report2024

Governance Report 2024

aware.com.au/governancereport 2024

Additional report:

Responsible Investment Report 2024

aware.com.au/responsible investment report2024

About us

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

Deanne Stewart, CEO

Everything we do is for our 1.15 million members and their communities.

We're one of Australia's largest profit-for-members super and retirement[1] funds with over A$176 billion funds under management.[2] As a profit-for-members fund, our profits go back into benefits and services that help our members get the most out of their super, and ultimately, their retirement.

We're leading the way in reshaping the industry. We think big and strive to be more than a super fund, finding innovative ways to help Australians enjoy a retirement of comfort, purpose and connection.

We achieve this by providing: super helpful advice[3] and guidance that supports our members through every life stage; super simple digital experiences that leverage data and technology to make it easier for our members to grow and engage with their super. While also delivering super returns, with our Future Saver High Growth option delivering a strong 8.82% p.a. return over 10 years.[4]

We're here to help our members feel confident planning for and living their best retirement.

Awards and ratings

We've been recognised by the industry's top rating agencies over the past 12 months, and recognised as a leading fund for 2024. Some highlights include:

- SuperRatings Retirement Offering of the Year (2024)
- Chant West Super Fund of the Year (2024)
- Chant West Pension Fund of the Year (2024)
- Chant West Best Fund: Investments (2024)
- Chant West Best Fund: Insurance (2024)

For more on our awards, see: **aware.com.au/awards**

1. Based on APRA annual fund-level superannuation statistics June 2023.
2. As at 30 June 2024.
3. Aware Financial Services Australia Limited (ABN 86 003 742 756, AFSL 238430).
4. Source: Aware Super. Results are based on transactional unit prices and are the returns experienced by members at 30 June 2024. Past performance is not a reliable indicator of future performance.

Our commitment to the United Nations Sustainable Development Goals

We work with the companies we're invested in and the investment community at large to advance the adoption, integration and reporting of the United Nations (UN) Sustainable Development Goals (SDGs). One example is our involvement with the UN Global Investors for Sustainable Development (GISD), where we collaborated with fellow members on the definition of '**Sustainable Development Investing**' adopted by the GISD Alliance.

For more on this, see: Measuring our positive impact on page 16.

SUSTAINABLE DEVELOPMENT GOALS

The 17 SDGs contain 169 targets to address the world's most urgent sustainability challenges, such as poverty, inequality and climate change, by 2030. It's widely recognised that achieving meaningful progress by 2030 will require trillions of public and private investment dollars.

We're proud to be part of progressing the UN SDGs through our investments and active ownership approach. It helps us deliver strong long-term returns for our members, with social and environmental benefits.

We've identified five material SDGs that align with our responsible ownership activities

SDG 5: Achieve gender equality and empower all women and girls

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

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

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

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

SDG 12: Ensure sustainable consumption and production patterns

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

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

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

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

17.14 Enhance policy coherence for sustainable development.

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

Responsible ownership

As a responsible owner we are investing for strong retirement outcomes for our members.

Being a responsible owner means taking environmental, social and governance (ESG) considerations into account when we invest. Some of the ESG factors we consider include:

- **Environmental** – climate change, waste, pollution and biodiversity.
- **Social** – diversity and inclusion, modern slavery, labour relations (including supply chain management), workplace health and safety, and adherence to international conventions.
- **Governance** – board structure, director remuneration, conduct and culture, data privacy and cyber security, and transparency and reporting.

For us, managing ESG risks across our portfolio is an essential part of achieving strong long-term returns for our members. We believe it is important to take ESG considerations into account because a company's approach to managing ESG risks and opportunities can have a meaningful impact on its viability and success. Over the long term, we believe companies and assets with sound ESG management are more likely to increase in value. By contrast, poorly managed ESG risks have the potential to reduce shareholder value.

We report on our responsible ownership approach under five pillars

Pillar 1

Environmental, social and governance integration

Pillar 2

Advocacy and collaboration

Pillar 3

Stewardship: Engagement and voting

Pillar 4

Restrictions and exclusions

Pillar 5

Measuring our impact

Responsible ownership (continued)

Pillar 1: Environmental, social and governance integration

Investments

We assess and monitor ESG risks and opportunities across our portfolio throughout the life of an investment, from initial investment due diligence and selection (before we invest) and during our ownership.

How we apply ESG considerations

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

External managers

Our ESG integration approach extends to the way we select and partner with our external managers. We expect them to consider ESG as part of their investment activity and analysis, while allowing flexibility around how they apply the considerations.

For more on our external manager assessment criteria, see:

aware.com.au/responsibleinvestmentreport2023

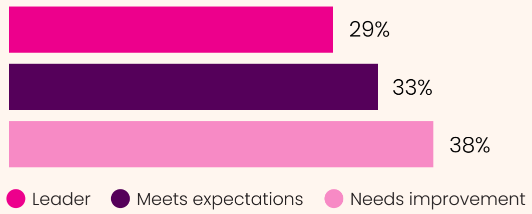
In the 2023/24 financial year, we engaged with or issued ESG diligence questionnaires to our external fund managers. The review highlighted strengths, as well as areas in need of more targeted engagement.

Manager ESG rating

Climate change

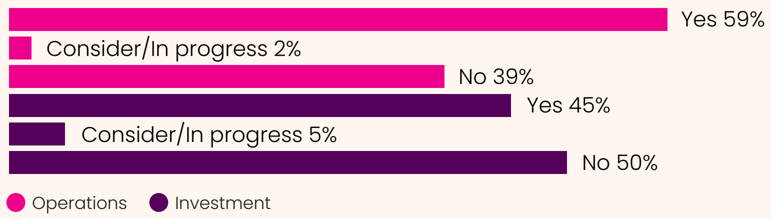
We focus on the way our managers approach and manage climate change risks, including their commitment to net zero by 2050. In the 2023/24 financial year, 62% managers met or exceeded our expectations.

Manager climate rating



In addition, 59% have committed to being net zero in their operations and 45% to being net zero in their investment portfolio.

Net zero commitment



Pillar 2: Advocacy and collaboration

We take a whole-of-industry approach to responsible ownership. This involves engaging and collaborating with like-minded investors and industry associations to help inform our understanding of ESG risks and opportunities. We also engage with non-government organisations (NGOs), unions, community stakeholders and other representative bodies. Some key initiatives we're involved in are summarised below.

GISD Global Investors for Sustainable Development Alliance

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

gisdalliance.org

Climate Action 100+

We've joined more than 700 global investors with more than US$68 trillion in assets under management to engage the world's largest carbon emitting companies to act on climate change through the Climate Action 100+ initiative. For more about Climate Action 100+, see:

climateaction100.org

Australian Sustainable Finance Initiative

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

asfi.org.au

40:40 VISION

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

hesta.com.au/4040Vision

PRI Principles for Responsible Investment

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

unpri.org

ACSI

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

acsi.org.au

Responsible ownership (continued)

Pillar 2: Advocacy and collaboration (continued)

Federated Hermes EOS

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

hermes-investment.com

Transition Pathway Initiative

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

transitionpathwayinitiative.org

riaa Responsible Investment Association Australasia

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

responsibleinvestment.org

TCFD Task Force on Climate-related Financial Disclosures

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

fsb-tcfd.org

Investor Group on Climate Change

The Investor Group on Climate Change (IGCC) is an Australian and New Zealand collaboration on the impact of climate change on the financial value of investments. We are a signatory to the Global Investor Statement to Governments on Climate Change. For more about IGCC, see:

igcc.org.au

IAST APAC

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

iastapac.org

Pillar 3: Stewardship: Engagement and voting

Stewardship

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 to positively influence policies, behaviours and practices in areas such as climate change, worker safety, diversity, company conduct and culture, and cultural heritage management. Additionally, we use our voting rights with an aim to influence how these companies are governed in a way that enhances their long-term performance.

Engagement

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

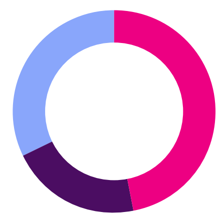
For companies in Australia, we engage directly, through our fund managers, with the Australian Council of Superannuation Investors (ACSI) and other collaborative groups (including Investors Against Slavery and Trafficking Asia Pacific (IAST APAC), and Climate Action 100+).
We engage with international companies through our partner, Federated Hermes (EOS), and our fund managers.

Australia

We engaged with 50 companies across 123 meetings, both directly and in collaboration with ACSI.

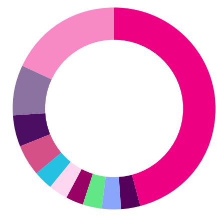
Engagement objectives
By theme

Environment	47%
Social	21%
Governance	32%



Issues and objectives engaged
ESG

Climate change	46%
Environment	3%
Safety	3%
Diversity	3%
Workforce	3%
Cultural heritage	3%
Social licence to operate	3%
Conduct and culture	5%
Modern slavery and labour rights	5%
Governance	8%
Remuneration	18%



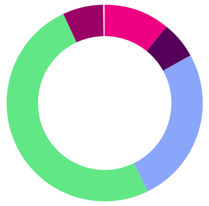
Responsible ownership
(continued)

Pillar 3: Stewardship: Engagement and voting (continued)

International

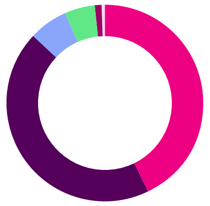
Companies engaged
By region

Developed Asia	60
Emerging and developing markets	34
Europe	142
North America	278
United Kingdom	36
Australia and New Zealand	1



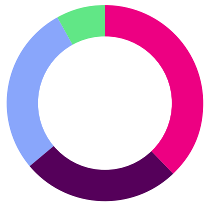
Issues and objectives engaged
Social and ethical

Human and labour rights	43%
Diversity, equality, inclusivity and innovation	44%
Conduct and ethics	6.5%
Responsible tax practices	5%
Safe products and services	1%
Anti-bribery and corruption	0.5%



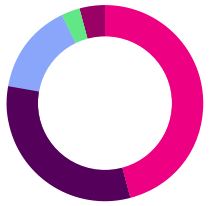
Issues and objectives engaged
By theme

Environmental	38%
Social and ethical	26%
Governance	28%
Strategy, risk and communication	8%



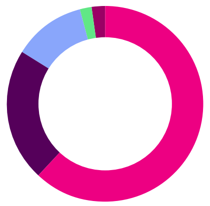
Issues and objectives engaged
Governance

Pay design and transparency	46%
Board composition and structure	32%
Basic shareholder rights and protections	15%
Board and management effectiveness	3%
Succession and stability	4%



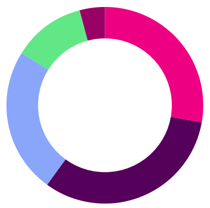
Issues and objectives engaged
Environmental

Climate change	62%
Biodiversity and sustainable food systems	22%
Pollution and circular economy	12%
Water stress	2%
Antimicrobial resistance	2%



Issues and objectives engaged
Strategy, risk and communication

Sustainable transparency	28%
Purpose, strategy and policies	32%
Enterprise risk management	24%
Audit and accounting	12%
Cyber security	4%



Diversity

We advocate for diversity among Australian boards and executive teams, and believe companies that aren't focused on diversity are missing opportunities for idea generation and innovation.

Diversity is a large contributor to a company's culture, filtering through from the board to management and the general workforce. An inclusive workforce means everyone feels valued, which motivates positive behaviours and unlocks value within an organisation for the benefit of its shareholders.

While our focus to date has been on gender, we're now looking to understand how companies consider diversity more broadly, including age, ethnicity, education and professional experience. For us, diversity is not only a social imperative, it's also a competitive advantage that creates long-term value in a company.

Case study

Diversity in the resources sector: Iluka

We continue to focus on gender diversity in the resources sector. During conversations with large mining companies, we were encouraged by the ambitious targets and progress towards achieving equal gender representation across their workforce. However, smaller miners face significant challenges in achieving equal representation. The competition for talent is fierce. We discussed these challenges with investee company Iluka and were encouraged by its commitment to develop local expertise at its sites and invest in future female talent from school age onwards. Iluka also demonstrated confidence in its programs focusing on career development and employment opportunities for First Nations people.

Case study

Promoting gender diversity: ASX300 boards

In Australia, the number of women appointed to boards is growing, thanks to strong investor influence. Women now make up 37.2% of ASX300 board directors, a 5% increase from the previous year. In 2023, 51 of the 119 new director appointments to ASX300 boards were women. However, nine ASX300 boards still have no female directors.

Our commitment to gender diversity led us to withhold support for the re-election of existing directors at 10 companies in the 2023/24 financial year. We followed this voting action with letters to some companies and invited engagement.

We also participate in 40:40 Vision, an initiative encouraging companies to set gender balance targets of 40:40:20 in executive leadership by 2030.

During the 2023/24 financial year, we engaged directly with eight ASX-listed companies on gender diversity across the information technology, communication, industrials and property sectors. Broader discussion on board composition and diversity are part of almost all our company meetings.

Responsible ownership (continued)

Pillar 3: Stewardship: Engagement and voting (continued)

Executive remuneration

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

Engagement with companies on executive remuneration is a key focus for Aware Super. We engaged (both directly and alongside ACSI) with 52 ASX-listed companies across all sectors of our portfolio on:

- transparent disclosure on remuneration outcomes
- the composition of remuneration incentives (short-term versus long-term incentives)
- the adoption of remuneration tied to ESG performance criteria
- using board discretion (upwards or downwards)
- the intersection and treatment of safety performance and executive remuneration, in particular with regard to fatalities recorded in the workforce and how executive pay aligned (or otherwise).

In recent years, we've seen ongoing scrutiny of corporate culture, with boards held accountable for underperformance. The 2023 annual general meeting (AGM) season provided one of the highest number of strikes on remuneration reports, with 35 companies – including Qantas Airways Limited, Magellan Financial Group, Link, Bank of Queensland and Lendlease Group – on the receiving end. Of the companies receiving a strike, 77% had more than a 30% vote against – with Link, Harvey Norman and Qantas each receiving more than 80% against. Aware Super voted against 40 remuneration reports (out of 218) over the season.

Modern slavery

Respect for human rights is strongly associated with value chain resilience and business stability. We're increasingly aware of and concerned about the significant operational, financial, legal and reputational risks faced by companies that fail to manage human rights risks adequately.

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

A business that does not prioritise respect for human rights (which can be in the form of modern slavery, labour exploitation and human trafficking), risks business and supply chain instability. Neglecting these issues also threatens a company's social licence to operate.

Since the *Modern Slavery Act 2018 (Commonwealth)* was introduced, we've engaged with companies to understand how they manage modern slavery risks in their operations and supply chains. During the 2023/24 financial year, we engaged with 78 ASX-listed companies, directly and collaboratively via ACSI and IAST APAC, to help companies assess, identify and monitor modern slavery risks in their supply chain. The ongoing program has been well received.

Following the recommendations of the *Modern Slavery Act* review conducted in 2023, we now await further guidance from the Federal Government as to implementation items. One recommendation related to the role of the Act's Anti-Slavery Commissioner, with Australia's Parliament passing the Modern Slavery Amendment (Anti-Slavery Commissioner Bill 2023) and committing A$8 million over four years to support the Commissioner's establishment and operation. The government states that it will 'shortly begin the search for the inaugural Australian Anti-Slavery Commissioner through a transparent and merit-based selection process.'[5]

Case study

Addressing modern slavery: BlueScope

During discussions with BlueScope, and as part of its 2023 modern slavery statement, the company identified a number of International Labour Organization (ILO) forced labour indicators affecting contract workers in its Malaysian operations. BlueScope has detailed the remediation actions and process improvements within its statement. We will monitor the implementation of these improvements in its 2024/25 statement.

5. ministers.ag.gov.au/media-centre/albanese-government-establishes-anti-slavery-commissioner-28-05-2024

Case study

Preventing modern slavery: IAST APAC

The Investors Against Slavery and Trafficking Asia Pacific (IAST APAC) initiative, launched in 2020, is an investor-led, multi-stakeholder project. It aims to engage companies in the Asia-Pacific region to promote effective action in finding, fixing and preventing modern slavery, labour exploitation and human trafficking across their operations and supply chains. IAST APAC comprises 50 investors managing A$12 trillion in funds.

Aware Super, a founding member, sits on the steering committee and acts as both lead and a support investor on select companies identified by the group.

This year, we contacted ASX200 companies with the objective to:

- highlight Aware Super's involvement in the IAST APAC initiative
- raise awareness of modern slavery issues
- focus on modern slavery risks in company supply chains through improved data disclosure
- provide a list of **IAST APAC core metrics for modern slavery action, disclosure, collection and publication**, explaining how these may be helpful when addressing modern slavery issues
- ask feedback on companies' plans to report on these metrics
- share these results across the IAST APAC network to enhance future engagement efforts.

For more information, see: IAST APAC 2024 Annual Report

iastapac.org

Case study

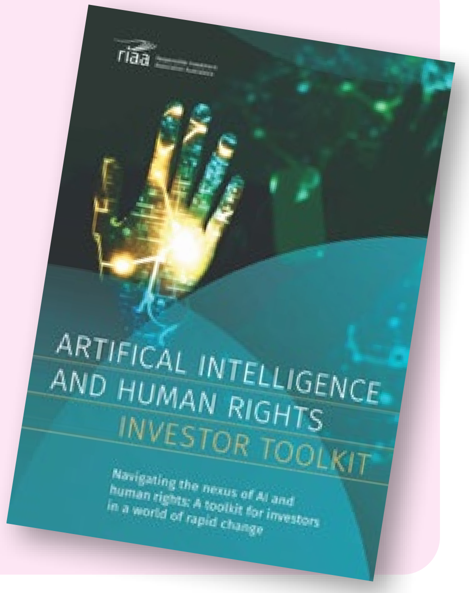
Artificial Intelligence (AI) and human rights

Aware Super is a member of RIAA's Human Rights Working Group, supporting RIAA members to respect human rights in their business operations and investment portfolios. The group brings members together in the interest of building stronger stewardship capabilities through:

- deeper understandings of human rights
- identifying and commenting on due diligence processes
- explaining the roles of investors and companies in remedying human rights abuses and violations.

As part of this working group, we helped develop a toolkit for investors that addresses the rapidly evolving human rights risks presented by AI. This comprehensive resource is appropriate for people who have very little familiarity with the issue, outlining the problem, providing case studies, outlining methodologies for understanding risks and detailing strategies for investor engagement.

For more on the toolkit, see:
responsibleinvestment.org



Responsible ownership (continued)

Pillar 3: Stewardship: Engagement and voting (continued)

Case study

Human capital management in retail commerce: Federated Hermes (EOS)

Since 2021, Federated Hermes (EOS) has engaged with one of the world's largest retail commerce businesses. It successfully encouraged the company to establish a human capital management strategy, given the importance of employee retention to the business and investors' concerns about excessive working hours in the industry.

During engagement from 2021 to 2023, the company continued to improve its human capital approach. This included improving disclosure of key metrics, such as turnover rates by gender and benefits, such as flexible work, long service leave and parental leave.

For more on our engagement activities, see: **International Engagement Report and ACSI's Engagement Report**

Voting

We own shares in many listed companies and vote on a diverse range of matters at company meetings. We use our ownership rights to enhance value for our members by voting on various topics, including board accountability and structure, executive remuneration, human rights, diversity, and climate-related disclosure and action.

Australian shares

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

International shares

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

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

We regularly see shareholder resolutions around environmental and social issues in US and European AGMs. We supported 68% of these, including proposals around companies reporting on their lobbying activities, diversity and inclusion, and climate-related activities. We also supported resolutions regarding animal welfare, requesting increased governance on AI and increased transparency on modern slavery risk.

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

aware.com.au/proxyvoting

Voting: Statistics

Australian shares	
Meetings	333
Resolutions voted on	2,074

International shares	
Meetings	3,135
Resolutions voted on	36,929

14%
of votes were against management recommendations

Pillar 4: Restrictions and exclusions

Our approach to integrating ESG across our investments generally involves taking action on the impact of these factors on a company's value and using our ownership rights, such as engagement and voting to positively influence companies' behaviour. However, in some circumstances we may restrict or exclude a sector or specific company.

Our current investment restrictions:

Manufacturers of tobacco or cigarettes

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

Thermal coal miners

Direct investments in companies that generate 10% or more of their revenues directly from thermal or energy coal mining.

Controversial weapons

Our controversial weapons exclusion includes direct investment in any company that derives revenue from the manufacture and/or production of chemical weapons, cluster munitions, land mines and depleted uranium.

This exclusion applies to companies manufacturing whole systems only (i.e. these weapons in their entirety) and does not apply to companies assembling these types of weapons where one or more components are manufactured by another company. In addition, it does not apply to companies involved in the deployment of these types of weapons such as aviation companies.

For more on restrictions and exclusions, see our Investment and Fees handbook:

aware.com.au/forms

Responsible ownership (continued)

Pillar 5: Measuring our impact

One of the real opportunities for us as a responsible owner is to develop ways to measure and monitor the impacts of our investments. Our Positive Impact Measurement Framework is a good example of this. In June 2019, we began measuring the positive impact of several assets.

While quantitative output measures of potential impact provide one assessment, we recognise not all impacts can be clearly quantified. To overcome this, we have also developed a Sustainable Development Investing Assessment methodology.

For more on our Positive Impact Measurement Framework, including the social and environmental themes, sub-themes and activities, see:

aware.com.au/responsibleinvestmentreport2023

For more on our Sustainable Development Investing Assessment methodology, see:

aware.com.au/responsibleinvestmentreport2022

We assessed selected investments to measure their positive impacts using our framework and we set out over the next couple of pages an overview of the outcomes we measured.

Positive social impact

425
key workers have access to essential worker housing[6]

2,150
people benefited from health and wellbeing initiatives[7]

40 million
new public transport passenger journeys[8]

20
additional jobs created in rural Australia[9]

SDGs contributed to:

3 Good health and well-being; 10 Reduced inequalities; 11 Sustainable cities and communities

Climate change solutions

1,200 GWh
of renewable energy generated[10] (enough to power approximately 200,000 homes in Australia for one year)[11]

750,000 tonnes
of CO_2 emissions avoided through renewable energy generation[12]

SDGs contributed to:

7 Affordable and clean energy; 11 Sustainable cities and communities; 13 Climate action

Sustainable agriculture

750 hectares
of protected habitat[13]

450 hectares
of protected streams[14]

SDGs contributed to:

14 Life below water; 15 Life on land

Source: Aware Super, 2024.

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

Note: These figures have been rounded down to the nearest 50, 25 and 5 depending on the magnitude of the measured outcome present in a conservative estimation of the positive outcomes.

6. This metric is based on data for part of the financial year (1 July 2023 to 31 March 2024) and has not been annualised. This metric is based on one asset.
7. Some of the data provided has been estimated. This metric is based on data for part of the financial year (1 July 2023 to 31 March 2024) and has not been annualised. This metric is based on two assets.
8. This metric is based on data for the full financial year (1 July 2023 to 30 June 2024). This metric is based on one asset.
9. This metric is based on one asset.
10. This metric relates to 12 assets. Due to reporting deadlines and data availability, this metric represents the renewable energy generated by 12 investments for varying periods in 2023 and/or 2024 and has not been annualised. In particular:
    - eight assets provided data for 1 July 2023 to 31 March 2024
    - two assets provided data for the 2023 calendar year (1 January 2023 to 31 December 2023)
    - one asset provided data for the 2024 financial year (1 July 2023 to 30 June 2024), and one asset provided data for 19 September 2023 to 31 March 2024.
11. This calculation is for illustrative purposes and has been undertaken with the best data available on the average Australian household's electricity usage. For comparison purposes, the overseas renewable generation has been converted to the equivalent number of Australian houses.
12. This calculation has been undertaken with the best available data on the grid emissions intensities of the various electricity grids our assets are in. We recognise these are not definitive calculations and are therefore for illustrative purposes only. Additionally, it is anticipated that as the grids of various nations decarbonise the emissions intensity will naturally come down too, therefore this emissions avoided calculation should also decline over time per GWh of electricity generated.
13. Due to reporting constraints the data presented is for calendar year 2023 (1 January 2023 to 31 December 2023).
14. Due to reporting constraints the data presented is for calendar year 2023 (1 January 2023 to 31 December 2023).

Responsible ownership (continued)

Pillar 5: Measuring our impact (continued)

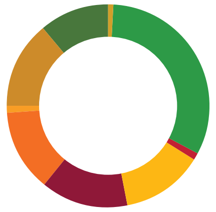
Sustainable Development Investing Assessment

Our Sustainable Development Investing Assessment methodology uses the **Sustainable Development Investing (SDI) definition** to assess the impact of a selection of investments.

Although we capture our positive impact in two ways, we believe both methodologies play important roles in assessing the impact our investments have on the environment and society. For example, our due diligence approach for direct investments in private equity, infrastructure, property and credit income assesses whether an investment meets the GISD SDI definition.

As at 30 June 2024, across our direct private equity, infrastructure, property and credit income portfolios, we have identified 65 companies representing A$13.6 billion[15] of investment capital that are contributing positively to the SDGs. The breakdown of the SDG contribution by asset class is shown below and on the next page.

Private equity



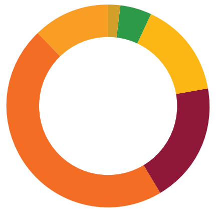
SDG 2	1%
SDG 3	32%
SDG 4	1%
SDG 7	13%
SDG 8	14%
SDG 9	13%
SDG 11	1%
SDG 12	14%
SDG 13	11%

Credit income

SDG 3	22%
SDG 4	10%
SDG 7	5%
SDG 9	19%
SDG 11	11%
SDG 12	34%

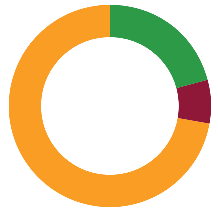
15. Based on net asset value of assessed investments as at 31 May 2024.

Infrastructure



SDG 2	2%
SDG 3	5%
SDG 7	15%
SDG 8	19%
SDG 9	46%
SDG 11	12%

Property



SDG 3	21%
SDG 8	7%
SDG 11	72%

Case study

Sustainable development investing: Harrison.ai

Harrison.ai is a global healthcare technology company founded in Sydney in 2018. The company focuses on addressing healthcare capacity constraints and improving diagnostic accuracy through AI solutions.

The company aims to:

- meet SDG Goal 3 by ensuring healthy lives and promoting wellbeing for all
- meet SDG target 3.4 by 2030 by reducing mortality from non-communicable diseases and promote mental health
- streamline diagnostic workflows so clinicians can prioritise critical cases
- enhance the accuracy of diagnostics.

Harrison.ai develops AI tools, such as Annalise CXR (for chest X-rays) and Annalise CBT (for brain CTs) and is developing a solution for anatomic pathology and laboratory medicine.

Annalise.ai, its tool for radiologists, is the most comprehensive in the world, surpassing competitors by 4.3x in scope for its chest X-ray product, and 6.5x for its brain CT product.

The next generation of product incorporates more automation, helping radiologists detect and triage cases, and drive around 40% efficiency gains through automated report drafting. This makes radiologists faster and more accurate.

Annalise's customer pipeline includes care for over five million patients each year. In Australia and New Zealand alone, one in three radiologists use Annalise CXR for chest X-rays.

Harrison.ai has partnered with Sonic Healthcare to release Franklin.ai, its first AI diagnostic tool for prostate diagnostics, this year.

Climate change

Since 2015, we've actively considered the impact of climate change in our investment approach, drawing on the latest climate science and global best practice to address the associated social, environmental and economic risks.

By focusing on risk and opportunity, we aim to secure long-term returns for our members and protect their retirement outcomes, while also having a positive impact in our communities and the environment.

Our Climate Change Portfolio Transition Plan (Transition Plan) was updated and approved by the board in the 2022/23 financial year, providing a refreshed framework to help us navigate the systemic and structural shifts ahead.

For more on our approach to climate change, see:

aware.com.au/transitionplan

Governance

Our fund's long-term success depends on strong governance and effectively managing the financial risks arising from climate change. The key roles involved in achieving this are summarised below.

Aware Super Board	The board is ultimately responsible for overseeing all investment decisions, including the management of any financial risks arising from 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. It also approves our Investment Beliefs.
Investment Committee	The Investment Committee is a nominated sub-committee of the board and has delegated authority to oversee certain elements of the Investment Governance Framework (IGF). Our responsible ownership approach, including our response to climate change, is embedded in the IGF. It is also embedded in: • our Investment Beliefs • our Investment Policy Statement • our Responsible Investment Policy.
Chief Investment Officer and Head of Responsible Investment	Our Chief Investment Officer (CIO) is responsible for implementing our Transition Plan, with our Head of Responsible Investments overseeing the day-to-day work. They frequently update the board and Investment Committee about Aware Super's efforts to manage climate risk, including an annual review detailing progress toward the goals and actions outlined in our Transition Plan.
Risk	The board is ultimately responsible for setting Aware Super's overall risk appetite (which includes investment risk and that incorporates ESG and climate risk) and reporting against those risks is provided to the Investment Committee, Audit, Risk and Compliance Committee and board.
Responsible Investment team	The Responsible Investment team is a group of ESG professionals working within the Investment team. The team focuses on the day-to-day implementation of our Transition Plan, alongside all other investment teams.
Investments team	The following stakeholders work alongside the Responsible Investment team on climate-related due diligence, Transition Plan implementation and investment ownership: • investment teams, including listed equities, infrastructure, property, private equity, credit, fixed income and investment strategy • investment managers • direct asset oversight and enhancement team.

Oversight and approval bodies

Trustee Board and Investment Committee				
Investment Governance Framework	**Investment Beliefs**	**Investment Policy Statement**	**Responsible Investment/ESG Policy**	**Climate Change Portfolio Transition Plan**
Combines the systems, structures, policies, processes and people employed to meet our member responsibilities. Ensures a disciplined approach to managing investment risk, including climate and other ESG-related risks.	Explains responsible ownership and details how we add value by closely managing risks, including ESG and climate risks.	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 risks 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 contributing to the large, systemic and structural changes required to address climate change.
Responsible for implementation – CIO/Head of Responsible Investments				

Strategy

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

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

As global climate efforts evolve and new scientific insights emerge, our approach will continue to adapt. We review our climate strategy each year and provide updates on our progress.

Climate change (continued)

Managing climate risks and opportunities

Risks

When it comes to risk management, Aware Super categorises risk under four Enterprise Risk categories: strategic (including investments), financial, operations, reputation and external (including reputation). Led by our Chief Risk Officer, it's the responsibility of all our employees to know and apply this framework to their roles.

Climate-related and material ESG risks are considered at an enterprise-level and incorporated into our wider risk taxonomy. These are further captured in the Investment Risk Framework and are monitored and managed across our investment, compliance and risk capability.

As part of our framework, we assess material risks quarterly, and provide appropriate reporting to our Audit, Risk and Compliance Committee. If any risks identify as high, we take action to correct them.

We treat climate change as a business unit risk under each group executive – encouraging our team to consider the complex, interrelated nature of climate risk more widely across our fund.

Our climate risk definition spans three kinds – **physical**, **transition** and **liability** risks.

This includes risk identified in due diligence and our investment ownership, and our business operations and third-party service providers.

To develop our climate risk roadmap, we voluntarily participated in the Australian Prudential Regulation Authority (APRA) Climate Risk self-assessment survey again this year. It's our goal to keep exceeding the current recommendation, so measuring our approach against our regulator's expectations continues to provide valuable insight.

Managing investment climate risk sees us draw on a range of frameworks, processes and tools.

The table on the next page is a summary of our climate risk identification process.

Physical risk

We're aware of the growing physical risks and evaluate the implications for our investments over the short, medium and long term. Assessing physical climate risks is a challenge, because understanding exactly where, what and when regions and investments may be affected is an impossible task. However, evolving methodologies allow us to overlay potential physical climate scenarios onto regions and investments based on location. The significance of this approach is the ability to start assessing the possible adaptations or capital expenditure that our investments may need to ensure they stay resilient.

Transition risk

These are the risks and opportunities associated with a shift to a low-carbon economy and remain wide-reaching across multiple factors. For us, this means making considerations around the costs of polluting (e.g. carbon pricing), changes in technology advancements driven by climate change, shifts in consumer preference towards products (e.g. electric vehicles), aiming for a just and equitable transition for all, and the looming risk of stranded assets – investments that are no longer viable in a transitioning world.

Liability risk

The global trend of climate litigation is not only increasing, the legal grounds for these cases is also widening.[16] Our aim is to diligently assess, monitor and manage climate-related risks within our portfolio and to transparently report on our actions to achieve the best financial outcomes for our members.

16. Global Climate Litigation Report: 2023 Status Review, United Nations Environmental Programme.

Risk identification process

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

Opportunities

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

Climate-related metrics and targets

Our Transition Plan sets out our pathway to decarbonisation through measurable, timebound emissions reduction goals and targets.

We will review our overall targets in the 2024/25 financial year, with the aim of making sure they reflect global best practice. Each Aware Super sector portfolio has or will have its own 2030 Scope 1 and 2 decarbonisation targets, designed to support the targets above. For more information, see our CTP.

Our five-pillar climate strategy, along with the initiatives under each pillar, position us to meet these goals. Details about the work behind each pillar is summarised on the following pages.

We will be transparent about the progress we make, providing regular updates to our board and yearly updates (at least) to our members. To reach our long-term targets, we must set short- and medium-term milestones that guide us towards net zero.

The pathway to net zero will inevitably be uneven and Aware Super's net zero trajectory could regularly change as a result of organic growth and mergers with other funds. There are going to be ongoing risks to achieving the climate target milestones and Aware Super will not be alone with this risk. Nevertheless, we are determined to make sustainable progress that not only delivers the best financial returns to our members but also considers how people and the planet are affected by climate change as we shift to a low-carbon economy.

Our overarching targets

Aware Super aims to support an orderly and equitable transition to net zero GHG emissions through our investment activities, stewardship and advocacy. Our overarching targets to support this are:

Striving to achieve net zero GHG emissions in our portfolio by 2050.

Supporting an economy-wide reduction in GHG emissions of 45% by 2030.

Achieving a 45% reduction in Scope 1 and 2 emissions intensity of our investment portfolio by 2030.

Climate change (continued)

Progress against 2030 targets

Listed equities

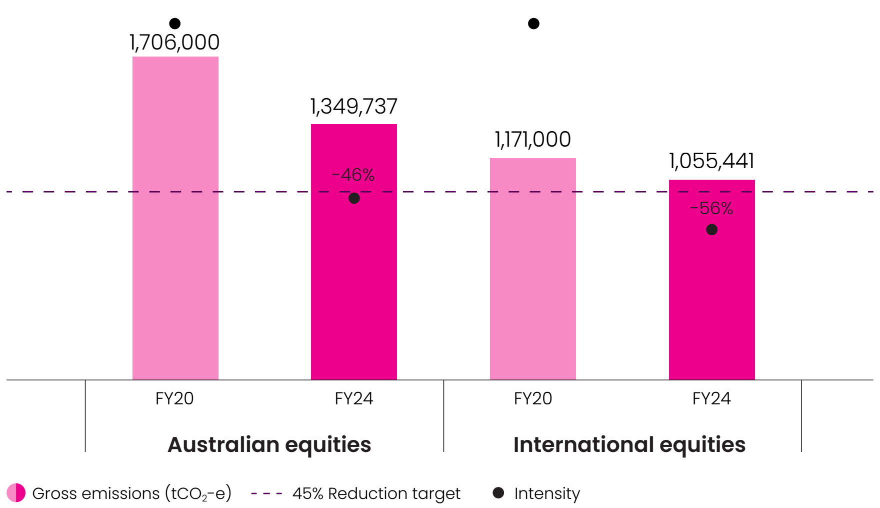
The target for the listed equities sectors is to achieve a 45% emissions intensity reduction for Scope 1 and 2 by 2030 compared to a 30 June 2020 baseline.[17] In 2019, we introduced a carbon constrained benchmark to assist with managing the portfolios to a targeted carbon outcome. In practice, under this current target we will aim to maintain a 45% emissions intensity reduction in our Australian and International equities portfolios during the period to 30 June 2030.

As with any approach to measuring emissions intensity, there are limitations. For example, the level of emissions intensity reduction reported over a given year will fluctuate and this may be due to changes in underlying companies' market capitalisation and the point at which Aware Super's share of those emissions are calculated – for example, financial year end.

While reported emissions intensity may decrease, it does not guarantee absolute emissions reduction and therefore may not contribute to the necessary economy-wide decarbonisation. For this reason, we also report our absolute financed emissions alongside intensity metrics.

The 2023/24 financial year represented the first year of operating under the newly stated target for listed equity portfolios. The outcomes are shown in the chart at the bottom of this page.

Listed equities emissions performance (Scope 1 and 2 only)



Direct assets

For our direct assets, we have set the following greenhouse gas (GHG) emissions intensity reduction targets:[18]

- Property – 60% emissions intensity reduction in Scope 1 and 2 emissions by 2030 from a 2022 baseline
- Infrastructure – 45% emissions intensity reduction in Scope 1 and 2 emissions by 2030 from a 2022 baseline.

Under these targets we aim to achieve a 60% and 45% emissions intensity reduction across our direct property and direct infrastructure assets respectively at 30 June 2030. This intensity metric allows for portfolio growth (which is projected to be considerable) while seeking to contribute to real world decarbonisation. These targets provide an appropriate contribution to the overall Aware Super 2030 target. The 2023/24 financial year represented the first year of operating under these targets for direct assets and at the time of preparing this report we did not have access to 2023/24 financial year emissions data. We have reported the 2022/23 financial year absolute financed emissions for our property and infrastructure portfolios at page 27.

In addition, we also have a progressive annual emissions reduction coverage target, meaning we will aim to have an increasing percentage of assets with an individual decarbonisation goal.

We are focusing on Scope 1 and 2 operational GHG emissions initially, since these are the ones that our portfolio companies have most influence over. Once a decarbonisation pathway for priority emissions is embedded, the scope of the plan may expand by bringing further emission sources inside the target boundaries.

In terms of portfolio companies, we include:

- those that are in our current portfolio (newly acquired portfolio companies have two years in which to set a target)
- those where we have at least a 25% shareholding or otherwise have meaningful influence
- only the stabilised (operating) portion of the companies (assets in development only need to set a target for operations).

17. Emissions intensity for listed equities is calculated as Financed Emissions Scope 1 and 2 (tCO2-e)) / (sum of net asset value (NAV) for companies where a gross Scope 1 and 2 GHG emissions figure has been estimated or reported /A$1,000,000).
18. Emissions intensity for unlisted assets is calculated as Financed Emissions Scope 1 and 2 (tCO_2-e) / (sum of net asset value (NAV) for assets where a gross Scope 1 and 2 GHG emissions figure has been estimated or reported /A$1,000,000).

To help us achieve our property and infrastructure sector targets, we are working with the underlying portfolio companies to set and achieve their own targets. We have set a clear expectation that these targets must make an appropriate contribution to the property and infrastructure portfolio targets.

In the 2023/24 financial year, we tracked two KPIs to monitor portfolio performance:

- % of companies that have a 2030 board-approved emissions reduction target
- % of companies that are on track (on an annual basis) to meet their board-approved targets.

In the 2023/24 financial year, we set a target for 95% of property portfolio and 85% of infrastructure portfolio companies to have set a board-approved target of their own. We further set a target for 60% of property portfolio and 50% of our infrastructure portfolio to be achieving their board-approved targets. We define a company as on track to meet its targets if its:

- annual emissions are below the asset's target pathway, or
- annual emissions are no more than 10% above the target pathway AND the board has confirmed it can still achieve the 2030 target, or
- progress against the action plan is on schedule.

The results for the year are shown in the table below.

	Property		Infrastructure	
Target	Coverage target	Actual performance	Coverage target	Actual performance
% of companies with a 2030 emissions reduction target	95%	100%	85%	100%
% of companies that are achieving their board-approved targets	60%	98%	50%	100%

Climate change (continued)

Pillar 1: Decarbonisation

The aim of Pillar 1 is to reduce emissions across our portfolio. This involves reducing emissions at a sector level, within each investment, as it supports our broader efforts to reduce emissions in the economy. We outline the methodologies for tracking portfolio emissions and projecting decarbonisation progress into the future.

Strategic initiatives include:

- developing a bespoke, dynamic decarbonisation roadmap and pathway to achieve net zero portfolio emissions
- setting, measuring and achieving credible short-, medium- and long-term emissions reduction targets in all asset sectors
- establishing a meaningful framework to measure, manage and forecast investment GHG emissions
- undertaking an annual assessment of progress towards our decarbonisation goals.

In the 2023/24 financial year, we undertook a portfolio-wide GHG emissions measurement exercise to reflect 2022/23 financial year data. One objective of this exercise was to improve data coverage and quality across our unlisted portfolios, noting that external data providers already enable us to undertake emissions measurement of our listed portfolios for the year to 30 June 2023. The outputs of this exercise are shown in Figure 1.

For our listed equity portfolio, we source emissions data from our ESG data provider.[19] For our unlisted portfolio, we request data directly from our investment managers and portfolio companies. We have seen an improvement in the GHG emissions data coverage in the 2022/23 financial year data collection.[20] Given the significant data improvements achieved in the 2022/23 data collection (see Figure 2), any direct comparisons with the emissions data captured in previous years may be less meaningful. Despite this, we provide some general commentary. There was a decrease in absolute financed emissions and emissions intensity across our listed equities portfolios during the period. This can be largely attributed to the implementation of a carbon constrained index, against which these portfolios have been managed since 2019.

It should be noted the calculation methodology for listed equities Scope 1 and 2 financed emissions is based on the Partnership for Carbon Accounting Financials (PCAF) methodology and was updated to align with developments in globally accepted calculation methodologies. Financed emissions data is sourced from ISS STOXX. For details on the ISS STOXX methodology, see footnote 19 on this page. This has resulted in a restatement of those figures previously reported in our **Responsible Investment Report 2022**.

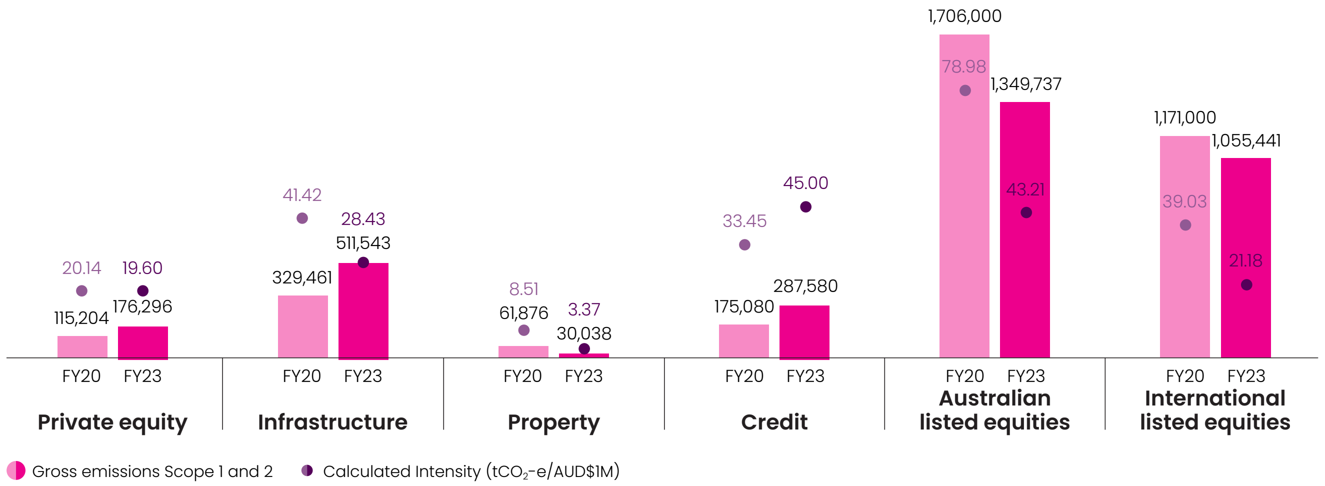
The property portfolio has also seen a decrease in absolute financed emissions and emissions intensity despite experiencing growth in assets under management over this time. This is driven by a change in the accounting basis on which the emissions calculation was undertaken in the 2019/20 financial year, as well as improvements in operational efficiency at an asset level and data quality.

For other private markets or unlisted portfolios, there was an increase in absolute financed emissions and a decrease in emissions intensity. The increase in absolute financed emissions reflects the growth in funds under management during the period. The decrease in emissions intensity is attributable to a combination of increased carbon efficiency at portfolio level and significant improvements in emissions data quality.

In the credit income portfolio, we measured an increase in absolute financed emissions and emissions intensity. There is however a significant amount of estimated data in the 2022/23 financial year credit income emissions number. The credit income portfolio currently has the lowest emissions data quality score (PCAF 3.77) due to there being certain security types for which there is no globally accepted emissions calculation methodology available. This makes it particularly challenging to measure emissions reliably in credit portfolios.

While we've set 2030 GHG emissions intensity reduction targets for the infrastructure, property, Australian and international listed equities sectors, for some investment sectors, this measurement exercise will be used to develop climate transition plans and target setting. Progress against targets is discussed above.

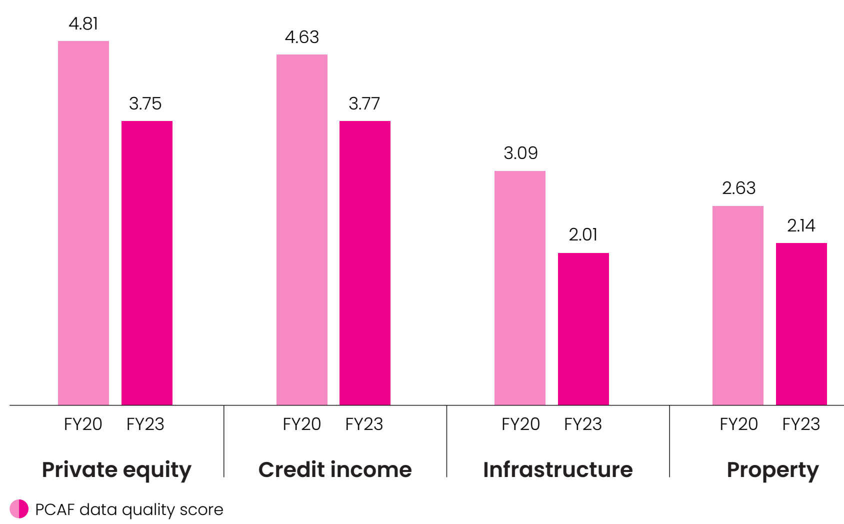
Figure 1: Financed emissions (tCO_2-e)[21]



As well as improving data coverage, we set out to better assess the quality of the financed emissions data provided by our fund managers and portfolio companies. Ultimately, we seek emissions data that is of a sufficient quality to make further decisions and to measure emissions with confidence.

To achieve this, Aware Super's Investment team partnered with Pathzero, a sustainability technology solution. Using the PCAF methodology to calculate our financed emissions, we were able to get an indication of data quality alongside reported emissions from fund managers and unlisted portfolio companies. Under this methodology, a PCAF score of 1 indicates the best quality data and a PCAF score of 5 is a lower quality estimate (see Figure 3).

Figure 2: GHG emissions data quality



19. We source emissions data for our listed equity portfolios from ISS STOXX ESG DataDesk. ISS STOXX collects self-reported emissions data annually from all available sources and evaluates their reliability. Companies are categorised based on their carbon profile, which allows for benchmarking non-reporting companies against their reporting counterparts. ISS STOXX uses 800 sub-sector specific models to estimate the emissions of non-reporting companies based on relevant financial or operational metrics. Emissions from holdings are allocated to the portfolio following an investor ownership logic. To ensure compatibility with other providers, such as TCFD recommendations or PCAF, various other metrics may be used. The data provided by ISS STOXX is refreshed at annual intervals and draws on emissions from the ISS STOXX company carbon footprint database. There is a time lag between the date at which the emissions data is published by ISS STOXX and the reporting period that the data relate to. This is to enable all emissions data used in a given report to be from the same financial year and for the reported data to be thoroughly quality checked.
20. The coverage of Australian equities (99.48%) and international equities (99.24%) has been calculated based on the mapped coverage of ISS STOXX data, which includes those positions with an issuer that is in the ISS STOXX ESG DataDesk Universe and to which Aware has access to. Emissions data coverage for private markets is calculated based on the number of assets for which a PCAF-aligned emissions estimate has been produced. On this basis, for infrastructure and property portfolios, a PCAF-aligned emissions data point was collected for 100% of assets. For the private equity portfolio, a PCAF-aligned emissions data point was collected for 97% of assets. In the case of credit income, the coverage also includes security types where an emissions estimate falling outside but adjacent to the PCAF methodology has been made. These include security types for which there is no PCAF methodology available. For the credit income portfolio, a PCAF-aligned or PCAF-adjacent emissions data point was collected for 90% of assets.
21. To correct a data error identified in our reported 2019/20 financed emissions Scope 1 and 2 data that appeared in our **Responsible Investment Report 2022**, we have restated financed emissions for our infrastructure, property and private equity portfolios. The data error related to the calculation of Aware Super's ownership proportion of financed emissions that was applied in this previous period.

The error identified for the infrastructure portfolio represents an adjustment to the data that is below the 5% materiality threshold. 2019/20 financed emissions data for the property and private equity portfolios represents an adjustment to the data that is above the 5% materiality threshold. Both the revised 2019/20 financed emissions Scope 1 and 2 data and the data as it appeared originally are outlined in the table below.

Investment sector	2019/20 financed emissions (tCO_2-e) –revised	2019/20 financed emissions (tCO_2-e) –original
Infrastructure	329,461	340,487
Property	61,876	101,052
Private equity	115,204	123,013

Climate change (continued)

Figure 3

PCAF score	Type of data required
1	Detailed calculated emissions, based on the Greenhouse Gas Protocol, that have been verified by a third-party auditor
2	Detailed calculated emissions, based on the Greenhouse Gas Protocol, not verified by a third-party auditor
3	Production-based data – for example, tonnes of steel produced
4	Economic data – such as revenue, company value and amounts lent or invested
5	Economic data – such as the amount loaned or invested

These insights into data quality enabled us to develop a strategy, working with our fund managers and unlisted portfolio companies. It will improve data quality over time and provide us with a basis to set meaningful emissions reduction targets across all investment sectors.

Our data quality results are shown in Figure 2. At a portfolio level, we consider a NAV-weighted PCAF score of 3 (or better) to facilitate meaningful target setting and GHG emissions monitoring.

While we've set 2030 emissions reduction targets for several sectors, emissions data quality has been a barrier to setting targets for our private equity and credit income sectors. Working with our unlisted fund managers, we've developed an engagement strategy to improve data quality, which we'll implement over the coming year.

Case study

Addressing data quality in private markets portfolios

Measuring emissions in private market portfolios poses challenges. This is due to the limited publicly disclosed emissions data from private companies and their resource constraints. To address this, we partnered with Pathzero, a sustainability technology solution, to improve coverage of emissions disclosures from our fund managers.

Using the platform, we captured investment-level emissions data aligned with the PCAF framework. The data includes emissions estimates derived from financial data and reported emissions disclosures from managers and portfolio companies.

This information enhances our ability to assess the emissions profile across our private markets portfolio. In addition, we have a clearer idea of where the significant sources of emissions are within the portfolio and where data quality needs to be improved.

We will use this data to monitor the progress of our climate strategy and engage with fund managers on climate alignment and expectations around data provisions going forward.

Pillar 2: Portfolio transition and resilience

Pillar 2 includes two primary aims:

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

Climate resilience means being able to 'anticipate, prepare for, and respond to hazardous events, trends, or disturbances related to climate'.[22] This means acknowledging the present temperature rises, as well as those locked in for the future due to already emitted GHGs. In other words, we should be ready for severe events more often, such as fires, heatwaves and heavy rainfalls, as well as chronic challenges, such as rising sea levels.

Strategic initiatives include:

- refining our investment transition assessment tool
- enhancing our physical climate risk assessment and climate adaptation plans for susceptible assets
- implementing a robust internal carbon pricing methodology across relevant investment sectors
- further developing our climate risk analysis roadmap, including climate scenario analysis.

Case study

In-house physical climate risk tool

In the 2023/24 financial year, we enhanced our approach to assessing physical climate risk exposure of direct assets. Specifically, we built a tool that leverages the publicly available global climate models (CIMP5 framework) to conduct preliminary assessments of physical climate risk.

Key features of the tool include:

- providing insights into an asset's exposure to climate hazards (exposure focus)
- assisting with understanding asset vulnerability, when combined with data on the asset's physical characteristics (vulnerability focus)
- automating the risk assessment process, simplifying physical climate risk evaluation
- providing projections across two scenarios: baseline (RCP4.5) and extreme (RCP8.5) and four timeframes (2030, 2050, 2070 and 2090).

We are assessing all direct assets using this tool and will embed it into our formal due diligence process to assess all assets coming into the portfolio. Using the tool's outputs, we will assess asset-level vulnerability to physical climate risk.

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

Climate change (continued)

Climate scenario analysis

Climate scenario analysis is a tool we use to adopt a forward-looking view and assess the resilience of portfolios against a range of potential climate and energy transition pathways. We first started climate scenario analysis in 2020 and have established an Investment Climate Scenario Analysis sub-group to better understand global best practice.

Case study

Climate scenario analysis of the listed equity portfolio

In the 2023/24 financial year, we partnered with abrdn and drew upon its proprietary climate scenario analysis to undertake our latest climate stress test of Aware Super's listed equity portfolios and comparative indices. abrdn's bespoke approach to climate scenario analysis, which draws on the Planetrics[23] model, provides a more rigorous and insightful approach than 'off the shelf' analysis:

- It uses research-driven insight to incorporate more realistic regional and sectoral variation than is typical, better informing our assessment of risk and opportunity.
- It's not restricted to the assumptions of a single model, allowing us to consider the sensitivity of investments to different technology pathways.
- It measures valuation impact against a baseline that incorporates how the climate transition is being priced into market prices, allowing the identification of potential asset price misalignment.
- It considers companies' transition plans to mitigate climate risks as well as their ability and likelihood of implementing them, allowing for the identification of companies with the potential to be credible transition leaders.

According to modelled results, Aware Super's listed equity portfolios and their associated benchmarks – for now at least – are not adversely affected in scenarios where no new climate policies are implemented but show increasingly adverse outcomes against a spectrum of increasingly stringent climate policy action.

Australian shares are more impacted than international shares, driven by higher weights to the energy and materials sectors, which could experience the greatest potential value impairments from increasingly stringent climate policy action.

In practice, impairments could even become opportunities as the number of companies with net zero targets increases and companies with targets act upon them to mitigate the impact of climate transition risk. As more companies adopt climate targets, we would expect future versions of the analysis to indicate this.

While some of the results may require more investigation, given the relatively muted impact from climate stress testing at this time, there is not a strong case to change our overall weight to listed equities. This is consistent with conclusions from our previous reviews.

Despite this, we remain vigilant about the potential impacts of technological change and/or climate policy change, and annual stress testing plays an important role in this process. We therefore believe the predominant focus of our climate risk management efforts should be to deepen our understanding of; sensitivity to; and management of transition and physical risk at sector and company/asset level. This exercise provides our Responsible Investment and Equity teams with considerable bottom-up insights and data.

23. This case study has been created by Aware Super drawing on selected data provided by Planetrics, a McKinsey & Company solution (which does not include investment advice). This case study represents Aware Super's own selection of applicable scenarios selection and/or our own portfolio data. Aware Super is solely responsible for, and this case study represents, such scenario selection, all assumptions underlying such selection, and all resulting findings, and conclusions and decisions. McKinsey & Company is not an investment adviser and has not provided any investment advice.

Case study

Internal carbon pricing

Applying an internal carbon price is a method of analysis that applies a hypothetical cost for companies that emit carbon emissions. In theory, this analysis supports investment decisions that are more emissions aware and potentially efficient.

To better understand the impact of a carbon price on our investment portfolio and on future investment decision-making, we undertook a shadow carbon pricing pilot within our infrastructure and direct listed equities portfolios.

The pilot aimed to determine at what points in the decision-making process a carbon price could be applied to add value to a decision and assess what information may be needed to operationalise an internal carbon price.

Assumption	Timeframe and price escalation points: 2025	2030	2035
Carbon price	A$60/tCO$_2$-e	A$110/tCO$_2$-e	A$135/tCO$_2$-e
Boundary (by scope)	Scope 1 and 2	Scope 1 and 2	Scope 1 and 2
Carbon price applied to what % of Scope 1 and 2 emissions	100%	100%	100%
Rate of grid decarbonisation[25] (ISP Step Change scenario)	32%	83%	96%
Incorporation of company emissions targets	Yes	Yes	Yes

Challenges included setting an appropriate carbon price and future price trajectory, determining coverage of the carbon price (boundary and timeframe) and quantifying emissions to which the price will be applied.

We used the pilot to test and refine our assumptions, detailed in the table below. Key to this exercise was setting a meaningful carbon price that aligned with the Paris Agreement.[24]

Future improvements will include further refinements to some of our assumptions, including which emissions might stabilise or decarbonise, the extent to which companies' stated ambitions are expected to drive reductions and any impacts associated with pass through of a carbon price.

Over the coming year, we will roll out the shadow carbon price across more portfolios. We will also determine where we can incorporate this as one tool in the decision-making process and consider the application of an internal carbon price.

24. Report of the High-Level Commission on Carbon Prices, 29 May 2017, Carbon Pricing Leadership Coalition.

25. 2019 forecasting and planning scenarios, inputs, and assumptions for use in the 2019-20 Integrated System Plan, 2019 Electricity Statement of Opportunities for the National Electricity Market, and 2020 Gas Statement of Opportunities for eastern and south-eastern Australia, AEMO.

Climate change (continued)

Pillar 3: Investing in climate solutions

We aim to invest in low-carbon opportunities and companies that have a clear decarbonisation pathway.

Strategic initiatives include:

- investing in climate solutions that support a low-carbon economy
- measuring the effectiveness of our investments as contributors to our decarbonisation goals
- establishing an Aware Super framework to assess, manage and invest in nature and biodiversity.

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

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

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

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

We have provided examples of some of our investments to support this pillar.

Case study

Greenbelt Capital Partners

In 2024, Aware Super committed capital to Greenbelt Capital Partners through our private equity program.

Greenbelt is a mid-market buyout fund in North America that targets businesses that enable energy transition. Launched in January 2022, Greenbelt seeks to invest in the four key 'new energy economy' sectors: transportation electrification, renewable generation, grid enablement and demand response/energy efficiency.

The first investment, Saber Power, is an electrical services platform supporting integrated electrical services to utility, renewable energy, battery storage and industrial sectors in their decarbonisation efforts.

Recently, Greenbelt also invested in CTC Global, which designs and manufactures advanced conductors for overhead transmission powerlines. It specialises in enhancing grid efficiency through increased capacity.

Case study

Birdwood

In 2023, we invested in Birdwood Distributed Energy Platform, a distributed renewable energy generation and battery energy storage system development platform. Birdwood primarily develops smaller-scale renewable generation assets, paired with battery storage that can support Australia's energy transition. The platform will develop renewable generation assets (typically solar farms) and batteries that generate electricity that can be sold either to the grid or to customers directly.

Case study

Octopus Energy

Octopus Energy, a UK-based energy supplier, specialises in renewable energy. It was founded in 2015 with a mission to make energy greener, simpler and cheaper for consumers. Aware Super's investment in Octopus, through the private equity program, increases exposure to the energy and technology sectors and diversifies the portfolio geographically. Octopus Energy is a major player in the global energy transition. It is one of Europe's largest investors in renewables, managing over 400 green generators, predominantly wind and solar farms.

Climate change (continued)

Pillar 4: Be a leader in company climate engagement

Pillar 4 leverages our overall stewardship program and focuses on our engagement and voting activities as it relates to climate outcomes.

Strategic initiatives include:

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

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

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

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

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

Case study

Climate engagement initiatives

In July 2023, Aware Super launched our Climate Engagement Plan, which focuses on proactive interaction with portfolio companies. The plan's execution is guided by a strong framework of:

- engagement with listed companies
- voting on climate-related issues
- engagement with fund managers (listed and unlisted)
- engagement with directly owned assets.

We engage with the priority companies directly and through our fund managers. Priority sectors include resources, transportation, industrials and finance. We collaborate with ACSI, Federated Hermes (EOS) at Federated Hermes and CA100+ to engage these companies and address the following:

- emissions reduction targets, transition planning and performance and physical risk objectives
- increased disclosure of emissions and management of transition and/or physical risks, and equitable transition objectives as appropriate
- financed emissions reduction targets and progress.

Case study

Corporate engagement and voting

Aware Super is encouraged by the partial progress in engagement objectives over the past 12 months across various sectors:

- **Resources sector:** Increased disclosure of Scope 3 emissions, methane emissions and clean energy strategies; increased disclosure on carbon offsets usage and efforts to uplift in board climate capability
- **Industrial sector:** Say on Climate resolution improving climate strategy disclosure and opportunity for investor feedback; market leading Scope 3 emissions ambition and uplift in scenario analysis disclosure
- **Energy sector:** Clean energy investment introduction of carbon pricing to company investment decisions.

While we acknowledge this progress, we chose to escalate voting action at the 2024 AGMs of Santos and Woodside to signal our ongoing concern with the lack of material change to the companies' approach to climate. At Woodside, we voted against its Say on Climate resolution and its Chair. At Santos, without a Say on Climate resolution, we instead voted against its remuneration report.

Case study

International engagement

Aware Super partners with Federated Hermes (EOS) to drive climate outcomes at the global listed companies that it invests in. EOS' engagement builds relationships that ensure effective influence on behalf of Aware Super and other clients. Climate objectives are set across many sectors, including transportation and resources and communication, aiming for outcomes such as enhanced Scope 3 emissions reporting and alignment with Paris Agreement targets.

At one company, successful engagement resulted in a Japanese car manufacturer's increased climate lobbying disclosure following targeted discussions. EOS is progressing a climate opportunity in the healthcare sector. This involves new technology that will significantly decrease Scope 3 emissions from a propellant used in asthma products.

Case study

Engaging for sustainable mining

Our fund managers play a crucial role in engaging our investee companies.

Recently, one of our Australian equities portfolio fund managers identified an engagement with a major diversified mining and metals company. While this company's products enable the energy transition, its operating emissions are high.

By highlighting the opportunity of industry leadership, the company was prompted to participate in a TNFD pilot study on nature-related financial disclosures. This engagement also led to the company's adoption of risk evaluation frameworks, aimed at minimising biodiversity impacts.

We acknowledge that other investors may have contributed to this outcome, however we note that our manager did directly engage.

Case study

Shaping climate action in banking: the big four

This year, Aware Super focused on engaging the banking sector in climate initiatives. Banks are exposed to physical climate risks and their activities directly impact the growth of low-carbon industries, as well as emissions-intensive industries.

In the last 12 months, investor engagement has spurred changes in the climate policies and action plans of Australia's four big banks. Currently, all four banks have made progress in setting financed emissions targets, introducing policies to reduce or cease lending to some sectors. They also require credible transition plans for clients to qualify for borrowing. Notably, Westpac was the first to offer a Say on Climate vote, which we supported in recognising its progress.

Going forward, we will aim to influence greater transparency and clarity in several areas:

- defining what constitutes a credible transition plan for customers
- addressing gaps in disclosure of lending criteria within high-emitting sectors
- requesting improved disclosures on considerations of just transition principles in lending decisions
- encouraging consistent use of sector definitions.

Climate change (continued)

Pillar 5: Having an influential voice

We're an active contributor to policy, advocacy, market development and education forums related to climate change and investment.

Strategic initiatives include:

- having an influential voice by actively participating in policy, advocacy, education and communications
- actively participating in climate policy development with a focus on government policy and Australia's Green Taxonomy
- delivering clear and transparent climate reporting.

Climate change policy and advocacy

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

During the 2023/24 financial year, we contributed to policy, advocacy, market development and education forums on climate change and investment. We continued our climate advocacy by participating in industry forums and collaborations, including:

- as an active member of ASFI, IGCC, RIAA, EOS and ACSI, collaborating on a range of climate-related activities
- attending a roundtable with Assistant Minister for Climate Change, Senator Jenny McAllister to discuss adaption and physical risk
- attending the Treasurer's Roundtable in December 2023 focused on net zero.

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

- our submission on the Climate-related financial disclosure: exposure draft legislation and Australian Sustainability Reporting Standards
- our submission on the Sustainable Finance Strategy, supporting sustainable finance in Australia
- mandatory climate reporting – participation in all rounds of consultation with government and the Australian Accounting Standards Board to support a mandatory climate reporting regime that provides useful information to the market
- ISSB consultation on future priorities
- Australian Carbon Credit Unit Review to support integrity and appropriate use of offsets
- Aviation Green Paper to support developing the sustainable fuels industry
- continuous disclosure review, to support robust laws on keeping the market informed
- carbon leakage review to provide views on implementing a carbon border adjustment mechanism in Australia
- First Nations Clean Energy Strategy to improve clean energy industry standards of engagement and negotiation with First Nations people
- offshore oil and gas consultation to support greater clarity on how oil and gas companies should engage with First Nations people
- Taskforce on Nature-related Financial Disclosures' guidance for financial institutions reporting
- Net Zero Economy Authority Bill 2024 to support establishing the Net Zero Economy Authority.

For more on our advocacy, see:

- acsi.org.au/submissions
- responsibleinvestment.org/resources/submissions
- igcc.org.au/resources
- hermes-investment.com
- asfi.org.au

2023/24 financial year Transition Plan outcomes

Theme	Target for the 2023/24 financial year	Evaluation of progress made during the year	Further information
Climate change stakeholder engagement	Deepen engagement with priority listed companies, direct investments and fund managers on topics related to climate change risks and opportunities, emissions reduction plans and our emissions targets	Complete	page 34
Sector emissions reduction targets	Work with relevant sectors to have an approved emissions reduction target	Baseline work: complete Target setting: in progress	Pillar 1 page 26
Direct investment emissions reduction progress	Monitor the progress and implementation of our direct investment targets and Transition Plan	Ongoing	page 24
Climate scenario analysis	Complete a climate scenario analysis of our portfolio, looking closely at a range of transition pathways	Complete	Pillar 2 page 30
Portfolio emissions management	Trial the emissions management technology platform and extend it to additional investment sectors	Complete	Pillar 1 page 28
Internal carbon pricing	Roll out an internal carbon price across a range of our investment sectors (where appropriate) and into investments where a price on carbon could impact financial returns	Complete	Pillar 2 page 31
Physical and transition risk assessment	Strengthen our methodologies for incorporating physical and transition climate risk assessments in our investment analysis, reflecting the latest science and research	Complete	Physical risks page 29
Advocacy, policy groups and initiatives	Prioritise critical advocacy and policy work, internally and across external organisations and initiatives	Ongoing	page 36

Climate change (continued)

2024/25 financial year and beyond

Theme	Activity proposed
Climate change stakeholder engagement	Deepen engagement with priority listed companies, direct investments and fund managers on topics related to climate change risks and opportunities, emissions reduction plans and our emissions targets
Sector emissions reduction targets	Build on the baseline work undertaken in the 2023/24 financial year, working with relevant sectors to have an approved and fit-for-purpose emissions reduction target
GHG emissions data quality improvement	Engage with investment managers and direct assets from the private markets sector to improve the quality of reported GHG emissions data
Establish a meaningful framework to measure, manage and forecast investment GHG emissions	Formalise and expand our approach to measuring GHG emissions across all sectors Develop methodology to forecast portfolio emissions
Assessing, managing and investing in nature and biodiversity	Conduct an initial biodiversity assessment across relevant sectors Develop a biodiversity and nature engagement strategy, and establish clear expectations for the companies we invest in Determine key nature metrics
Develop an ESG strategy to support reporting under forthcoming mandatory climate reporting	Develop an ESG data strategy that covers data collection, management and verification for the purposes of meeting future mandatory climate reporting requirements
Advocacy, policy groups and initiatives	Continue to prioritise the most critical advocacy and policy work, internally and across external organisations and initiatives

Climate reporting and disclosure

We currently report our climate action and progress against targets in accordance with the TCFD.

However, with the release of the Australian Government's mandatory climate reporting for Australian companies and financial institutions, this will mean our future disclosure will be updated to comply with those requirements.

Recognition and awards

RIAA[26]	Chant West[27]	Rainmaker Information[28]
riaa Responsible Super Fund Leader 2023	Responsible Investment Best Fund Chant West 2023 Winner; Investments Best Fund Chant West 2024 Winner	Rainmaker Information ESG LEADER 2023

We'd love your feedback on our report

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

enquiries@aware.com.au

26. RIAA Responsible Investment Leader (2023). For information about what it means to be a responsible investment leader, see: responsibleinvestment.org/resources/super-study/.

27. Zenith CW Pty Ltd ABN 20 639 121 403 AFSL 226872/AFS Rep No. 1280401. Chant West Awards issued 22 May 2024 are solely statements of opinion and not a recommendation in relation to making any investment decisions. Awards are current for 12 months and subject to change at any time. Awards for previous years are for historical purposes only. For more on Chant West Awards, see: www.chantwest.com.au/fund-awards/about-the-awards/.

28. The Rainmaker ESG Leader Rating is earned by Australia's best super funds that perform environmental, social and governance (ESG) principles to a high level, while having a track record of strong investment performance. For more on this rating, see: rainmaker.com.au/products/ratings-awards. Awards and ratings are only one factor to be taken into account when choosing a super fund. Past performance is not an indication of future performance.

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